

2. FORMATION OF A PROMOTION ORGANIZATION

2.1 BASIC REASON FOR PROPOSING A PROMOTION ORGANIZATION

To enhance the competitiveness of the Paraguayan private sector, the support of the public sector is vital, even in a market economy. The formation of an organization is proposed to implement the development strategies through discussion between the public and private sector.

2.1.1 The role of the public sector in economic development

Since the 1980s, Latin American economic development policy shifted from conventional import-substituting industrialization to private sector led industrialization within the market economy. Generally in Latin American countries, the government is characterized as follows, with respect of its role in economic development:

1950s and 60s: government as motor for development and the market's failure

1970s : the failure of the government's strategy (inefficient public investment, inefficient government corporations, over-regulation, fragile and unstable macroeconomic situation, deterioration of the infrastructure due to lack of maintenance, collapse)

1980s and 90s: private sector as motor of development and the failure of government policies (inefficient public sector).¹

The market economy policy confronts the past populism under state leadership by eliminating state intervention and entrusting the economy to the market. In the new environment driven by the market, the role of the private sector has become more important while the small government is required.

Countries which once relied on broad state leadership have now limited the state's role to those areas that the private sector cannot appropriately address, such as: maintenance of law and order, provision of public goods, human resource development, construction / repair of physical infrastructure, and protection of the environment. Any revision in the role of the state requires a reform of the civil service, as the civil service controls policy implementation. Civil service reform will naturally lead to privatization and decentralization, despite the fact that one of the past functions of the state has been "employer of last resort."²

¹ Claudio Capelli, "Paraguay: El Rol del Estado", Informe del Banco Mundial

² "Paraguay, The Role of the State, 1996 – 1.A", World Bank Report

Competition through the market economy has brought with it a rise in business closures and unemployment. It is hoped that sustainable development can resolve these issues by creating new employment, raising incomes, and assisting with the transition into high value added industry.

What is required of the government to achieve sustainable development? At this point it would be unwise to leave economic development entirely to the market, as many domestic enterprises have not yet become competitive enough to survive in internal and external markets.

The government is, first of all, to be a regulator. Instead of directly intervening in the market, the government is responsible for framing the regulations that secure the economic activities of the private sector. It also has a role to play in supporting technical innovation, productivity improvements, quality improvements, diffusion of technology, diffusion of market information and assistance with forming industry organizations (including cooperatives).

As in the other Latin American countries, Paraguay has turned to the market economy.

After the Stroessner regime was terminated in 1989, the Rodriguez Administration made substantial improvement in macroeconomic policy through unifying the multiple exchange rate system, liberalizing interest rates and the capital account, simplifying and modernizing the tax system, and achieving MERCOSUR and GATT entry.

The Wasmosy Government, coming to power in 1993, continued with economic liberalization and made further progress in macroeconomic stabilization, privatization of public enterprises, tax reform and financial reform (Central Bank regulations, new banking law).

Together with these economic reforms, much has been done to advance democracy since 1989. In 1991 the first municipal elections were held and the revised Constitution was enacted in 1992. To assist in implementing the 1992 Constitution, various rules and decrees have been established and the Judiciary has been strengthened. However, decentralization has only been partially successful. The changes that have taken place are only the first steps in a difficult process. Lack of transparency and clarity in the regulatory system, selective law enforcement, illegal “informal” business activities and poor government services, are all still unresolved and foster an unsuitable economic environment which has kept investment levels low.³

³ Paraguay - The Role of the State, 1996, Section 1-B, World Bank Report

Political and economic reforms have not yet been satisfactorily implemented because of resistance and fighting between the political parties. As a result, it has been difficult to carry out the structural reforms that require political will and long-term vision.⁴

Past economic development has been dependent mainly on public works (e.g. construction of Itaipú dam), agriculture based upon natural resources and low wage labor. Extensive reforms are required to remove the obstructions to 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.

As far as the role of the government is concerned, during the Stroessner regime, decisions were concentrated in the Presidency and both the public and private sector were tightly controlled. There was little or no effective state control or accountability, and Paraguay was sometimes referred to as a predatory state. The state failed to satisfactorily fulfill its basic functions in the following ways: a) abuse of Government power undermined the nominal system of order under defined legal rules, b) subservience of the judicial power to the executive branch, c) well-founded fears of arbitrary Government intervention, d) discriminatory applications of laws, e) the absence of effective machinery for conflict resolution, and enforcing property rights and contracts, f) poor and inefficient infrastructure services.⁵

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.

For economic development to proceed smoothly, the 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.⁶

The Government Program 1999-2003 (“Programa de Gobierno”), formulated by the current administration, confronts the challenge of globalization and 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.

⁴ “ Plandes Project: Paraguay, Reforms of the Public Sector – Executive Summary ” , STP

⁵ Paraguay - The Role of the State, 1996, Section 1-B, World Bank Report

⁶ 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

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 and responding to their problems.

2.1.2 Implementation of the development strategies through collaboration between by the public and private sector

As noted, Paraguayan enterprises and industries must strengthen their competitiveness if they are to effectively compete in domestic and external markets. Strengthening competitiveness is also the overriding theme of this study, while referred to in the aforementioned Government Program.

This does not mean, however, that the government should directly intervene in private sector activity. Rather, to strengthen the market participants, the private sector should take the initiative and the government should play a complementary role.

In the course of this study, the private sector was repeatedly consulted. Included in this, in the months of April and May 2000, three workshops were held in regional cities and one was held in Asunción.⁷

Through these consultations and workshops, we learned that the private sector has become severely distrustful and unsatisfied with the public sector. It will be difficult to mend this deep-seated problem.

Despite this reality, we also learned that the private sector acknowledges that the public sector has a large and important role to play in economic development, and that actually it seeks public sector support to strengthen itself.

This study proposes the following three development strategies to enhance competitiveness: a) strategy by sector, b) strategy to overcome general constraining factors of competitiveness, and c) strategy of clusters. The first two strategies depend more upon the public sector and the last more upon private sector initiative.

The implementation of the strategies is crucial to success. For effective implementation, an intermediary association composed of the public and private sectors is needed. Current needs are not for any sort of public sector-led economic development. Nor should the public sector formulate policy

⁷ 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.

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, based upon discussion between both sectors.

In order to cope with the problems that arise during the course of implementation, this study proposes the creation of an implementation organization composed of public and private sector representatives. Through discussion between the public and private sectors, the common goal of the economic development based upon competitiveness can be achieved.

In addition, it is hoped that the distrust of the public sector will be gradually wiped out through this organization.

2.1.3 Role of the public sector in development strategy implementation

The interviews with different representatives of the private sector as well as the aforementioned workshops, revealed that the private sector seeks government action in the following areas; 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

Examples of comments by the private sector on each of these items follow:

a) technology support

- Assistance with technological development, which takes considerable time and money
- A government facility which can put firms desiring technological assistance in touch with appropriate firms or entities

b) human resource development / vocational education

- An increase in the number of professional training schools and technical high schools
- Creation of a system to assist those who, for economic reasons, must work rather than go to school

c) quality control system

- Without government proof of quality (for example, confirming that exported meat is safe), goods can not be exported. This also reduces the amount of foreign investment and joint ventures. Foreign capital will not invest until goods can be exported.
- In order to be internationally accepted, a guarantee issued by the Paraguayan government itself should be endorsed by an international organization.

- d) export promotion
 - Export promotion activities of government offices in foreign lands are insufficient
 - Foreign country market information should be supplied to domestic producers

- e) institutional finance
 - Greater access to financing for producers is needed (including government or department entities acting as a guarantor for commercial loans)

- f) legal system
 - Compliance with the laws is needed
 - To enhance enforcement, the penal codes must be strictly applied to violators

- g) Association with the private sector
 - Government policy should not be determined by public entities alone, but together with the private sector
 - One of the reasons for the distrust in government is that, in rural areas, when government assistance is necessary, it is difficult to find a government representative that can handle the problem.

The majority of the above, a) through f), concern the general institutional framework. The public sector shoulders the responsibility to devise appropriate solutions. By devising good policy, competitive conditions can improve and impediments to competition can recede in a short time span.

As for item g), greater time might be necessary, but this concern will be partially met by discussions at the proposed promotion organization, particularly through implementation of the cluster strategy.

Although economic development is highly dependent upon private initiative, currently the Paraguayan private sector does not have sufficient competitiveness and has little strategic alliance to enhance it. The public sector must show strong commitment to the proposals in the study and take leadership until the formation of the proposed organization is on track.

Two recent regional movements are presented for reference: First, in Itapúa, in which the mixed feed cluster is proposed, the department office plans to make agreements with the MIC on technical assistance, the placement of credit lines, and other forms of mutual cooperation.⁸

⁸ Interview with the Planning Department of Itapúa in May, 2000

Second, as far as the discussion between the public and private sectors is concerned, the Department of Itapúa has plans to shortly set up the Departmental Council of Development of Itapúa (Consejo Departamental de Desarrollo de Itapúa).⁹

In Guairá, they already have an organ in which the public and private sectors discuss issues at the regional level, called the Consejo de Desarrollo de Empresarial Guairá.¹⁰ In May 2000, this organ sponsored a seminar concerning a cluster in the city of Villarrica, supported by GTZ and MIC.

The proposals in this chapter are based upon 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 the course of this study.

2.2 STRUCTURE OF THE DEVELOPMENT STRATEGY PROMOTION ORGANIZATION

This section studies the construction of the promotion organization to immediately start the implementation of the development strategies, making use of existing organs. As a first step, the formation of the “promoters” is indispensable. For that purpose, leaders are sought in the private sector, and the study proposes candidates for them. Further, the composition and the roles of each promoter are presented, together with the role of the STP in these development strategies. Additionally, a case analysis of El Salvador is presented for reference.

2.2.1 Overall structure of the organization

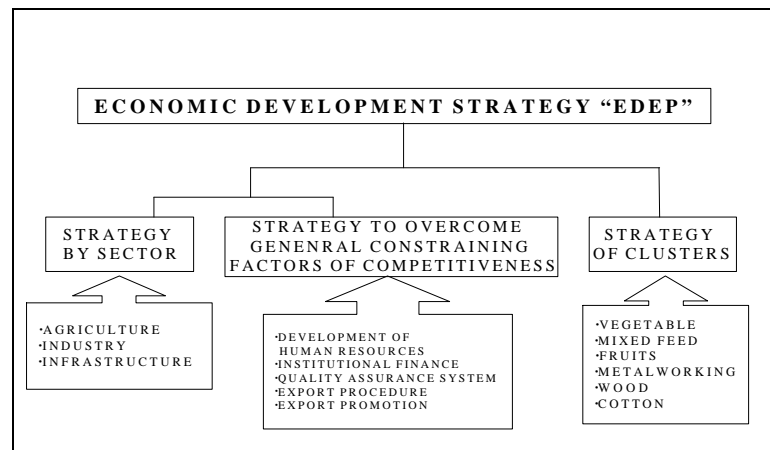
(1) Basic structure

The promotion organization is formed to implement the development strategies proposed in the study, having 3 promoters: 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 Cluster”).

⁹ Interview with the Planning Department of Itapúa in May, 2000

¹⁰ Members are Guairá department, municipalities, branch office of MIC (ORMIC) and enterprises

Figure 1 Development Strategies Proposed in the Study

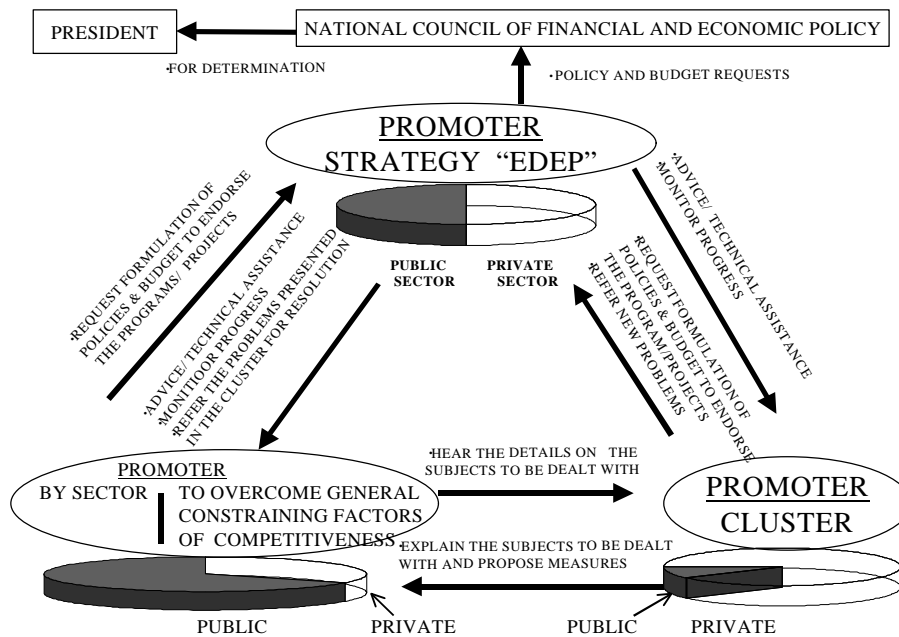


The following points apply to the formation of the promotion organization:

- a) each of the promoters shall be set up with exclusive powers to carry out the development strategies the “EDEP” proposes.
- 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 (particularly with respect to the cluster strategy).
- e) as the development strategy contains programs that must be carried out with a long-term vision, each promoter 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.

The following schematic shows the promotion organization, based upon the above considerations. The role of each promoter is outlined as follows.

Figure 2 Original Idea for Promotion Organization



Note: Each pie chart shows the relative level of commitment required by the public and private sector

[DEVELOPMENT STRATEGY “ EDEP ”] PROMOTER :

The main roles of this promoter are:

- a) to organize, supervise and plan the execution of the overall development strategy
- b) to instruct the [“Strategy by sector” / “Strategy for general factors”] promoter to plan the working program and monitor progress based on the overall plan
- c) to advise the [Strategy of Cluster] promoter for planning the working program , while respecting their independence
- d) to request the Central Government to formulate the policies and the budgets necessary to carry out the individual promoter strategies
- e) to maintain a staff of advisors to provide technical and other assistance to the individual promoters
- f) to identify and promote clusters other than the six proposed in this study

This promoter should be led by the public sector and is responsible for government level coordination. The private sector is expected to equally participate and to share responsibility, as consensus on economic policy is needed.

The members are expected as indicated below.

Table 2 Members of Promoter: Development Strategy “EDEP”

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

Representatives of the public sector : vice-ministers and directors

Once agreed upon, policy and budget requests will be officially referred to the National Council of Financial and Economic Policy (Consejo Nacional de Política Financiera y Económica)¹¹ and later to the President for final determination. Once approved by the President, the request will be passed to the relevant ministries for execution.

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

The main roles of this promoter are to carry out, by consensus, the programs/projects proposed in the “Strategy to overcome the general constraining factors of competitiveness” and the “Strategy by sector” in a prompt manner.

As policies and budget requests are needed quickly, the representatives in this promoter should have considerable experience and expertise. Likewise the private sector representatives should be very capable of discussing the relevant policies. As the task is to make implementation decisions, rather than discuss the programs/projects, extensive deliberation should not be required. In this sense, the role of the public sector is larger.

The proposed members are as follows.

¹¹ 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.

Table 3 Members of Promoter: Strategies by Sector/for General Constraining Factors

-Strategy by Sector -Strategy to overcome the general constraining factors of competitiveness	
Public Sector	Private sector
MIC MAG Min. of Foreign Affairs MOPC Secretariat of State Reform STP	FEPRINCO UIP ARP FECOPROD APYME Representatives of each cluster

Representatives of public sector: Directors or higher

Representatives of private sector: individuals competent to discuss policy matters

The consensus decisions formed here will be passed to the [Development Strategy “EDEP”] promoter and transferred through the National Council of Financial and Economic Policy to obtain the President’s final determination.

[STRATEGY OF CLUSTER] PROMOTER:

The main role of this promoter is to construct the six proposed clusters. In addition, the promoter will assess future problems, and either resolve them independently, propose the solution to the [Development Strategy “EDEP”] promoter, or ask the [Strategy by sector / Strategy for General Factors] promoter for a solution. It may also be necessary to request additional policy / budgets from the central government depending on the nature of future problems.

As the economic activities of the private sector are at the center of the clusters, the cluster strategies are largely dependent on private initiative. It is indispensable to harmonize the strategy with the policies of the regional government (potentially involving more than one Department) in order to develop economic activities applicable to the region and to increase collaboration with ministry branch offices when requesting policies and budgets.

The members of the promoter vary according to the given conditions in the proposed clusters. Below is the general idea for the composition, and, in section 2.2.3, the composition by cluster is shown.

Table 4 Members of Promoter: Strategy of Cluster

Strategy of Cluster		
Public Sector	Private sector	Support Organ
MIC (branch office) MAG (branch office) Departmental office Municipalities	Cooperatives Enterprises Industrial Organizations	Departmental Council for Development (if applicable)

As explained above, the question of whether the public or private sector should take leadership responsibility depends on the role of each promoter.

(2) Adjustments to the basic structure to reflect real conditions

Although the basic structure for the promotion organization was initially drawn as shown above, it has become necessary to reconsider this structure to take into account the following, 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, there does not exist any administrative organ to coordinate the interests of the ministries.
- 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 in this report (see Figures 3 & 4). The “immediate” structure, utilizing existing organs as much as possible, and a “future” one, relevant after decentralization is developed to a further extent.

In the “future” structure, based upon the considerations already described in (1), it is assumed that the regional governments and/or the branch offices of the ministries have authority duly delegated and, further, that they work in harmony, for example, under the coordination of the governor in the region. Moreover, it assumes decentralization will be deepened and the voice of the region will reach the central government in a unified manner between the existing branch offices of different ministries and the regional governments, with the existing organs retained.

The “immediate” structure also makes use of existing organs and places great emphasis on an early start to the development strategy.

The revised structure of the promotion organization is outlined in section 2.2.2, with greater detail on the roles and composition of each promoter.

2.2.2 Formation of the promotion organization

The promoters are constructed as follows, taking into account those considerations mentioned in the preceding section.

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)¹² and National Council of Financial and Economic Policy (Consejo Nacional de Política Financiera y Económica) can assume these roles respectively.

In the future, if either or both of the two relevant bodies are dissolved for any reason, and no successor organization is established, it will be necessary for the STP to establish a structure based on section 2.2.1.

[DEVELOPMENT STRATEGY “ EDEP ”] PROMOTER :

The activities of the promoter are mainly: a) to promote the overall development strategy, b) to supervise the 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 & advice.

The existing Economic Advisory Council plays the role expected from this promoter. The members are shown below.

Table 5 Promoter: Development Strategies “ EDEP ”

Economic Advisory Council	
Public Sector	Private sector
Min. of Foreign Affairs STP	FEPRINCO UIP ARP FECOPROD Centro de Importación del Paraguay Asociación de Bancos del Paraguay Cámara y Bolsa de Comercio CERNECO Cámara de Anunciantes dl Paraguay

Shaded area indicates the members originally proposed for the promoter: Table 2 [Development Strategy “EDEP”] in the study
Source: Decree No.7744/2000

The Economic Advisory Council, with delegations from wide-ranging industrial organizations, should provide an opportunity for deliberation between the public and private sectors. This Council is prescribed by Decree No.7744 to act mainly in the following five fields: a) Regional Integration, b)

¹² 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.

Macroeconomic Policy on Complementary Measures, c) Medium and Small-sized Enterprises, d) “Maquiladora” Industries and Free Zone, and e) Competitiveness and Productivity. The last of these, e), is targeted also at the development strategy of the study. In this Council a new team is established to take charge of the development strategy.

Some of the representatives of the private sector are not directly involved in the development strategies of the study, and only two public sector ministries are involved. Necessary members will be called out, to form a new internal working team in the Council which, together with the current members, will exclusively handle the development strategy “EDEP”. This team is not a permanent organ, but will be called on an “as needed” basis. The needs of the private sector, at the central and regional level, are represented in this Council.

This proposed working team is composed of members in Table 2.

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

The main expected 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.

To this effect, representatives competent to discuss policy are to be called. 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 by the relevant Decree is to make ministerial level decision on economic matters and to send these to the President for his final determination. This Council is composed of representatives only from the public sector, or ministry heads.

At this stage, the decision-making abilities of the central government are of greater importance than discussion. Decisions should be entrusted to this Council.

Table 6 Promoter: Strategies by Sector / for General Factors

National Council of Financial and Economic Policy	
Public Sector	Private Sector
Min. of Finance MIC MAG MOPC Secretariat of State Reform STP	None
Min. of Justice and Labor	
Central Bank	
Banco Nacional de Fomento	

Representatives: Chief of ministry or bank

Shaded area indicates the members originally proposed in the study: Table 3

Source: Decree No.2558/1999

In addition, one of the functions provided by the Decree is to evaluate the various policies. This Council is held twice a month. Considering all of the above, this Council is expected to satisfy the responsibility of the [Strategy by sector / Strategy for general factors] promoter.

[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. The success of the cluster depends upon the leadership of the private sector. Additionally, this strategy is very much related to the local government's policy, as the cluster is organized locally.

In the cluster promoter, the producers, cooperatives, processors and other private sector representative need to lead the formation of the promoter and the organization of the cluster. The department office and the municipalities should assist the private sector's representatives.

The members of the promoter vary according to the given conditions in the proposed clusters. The general idea for the composition is shown below, and, in section 2.2.3, the composition by cluster is shown.

Table 7 Promoter: Strategy of Cluster

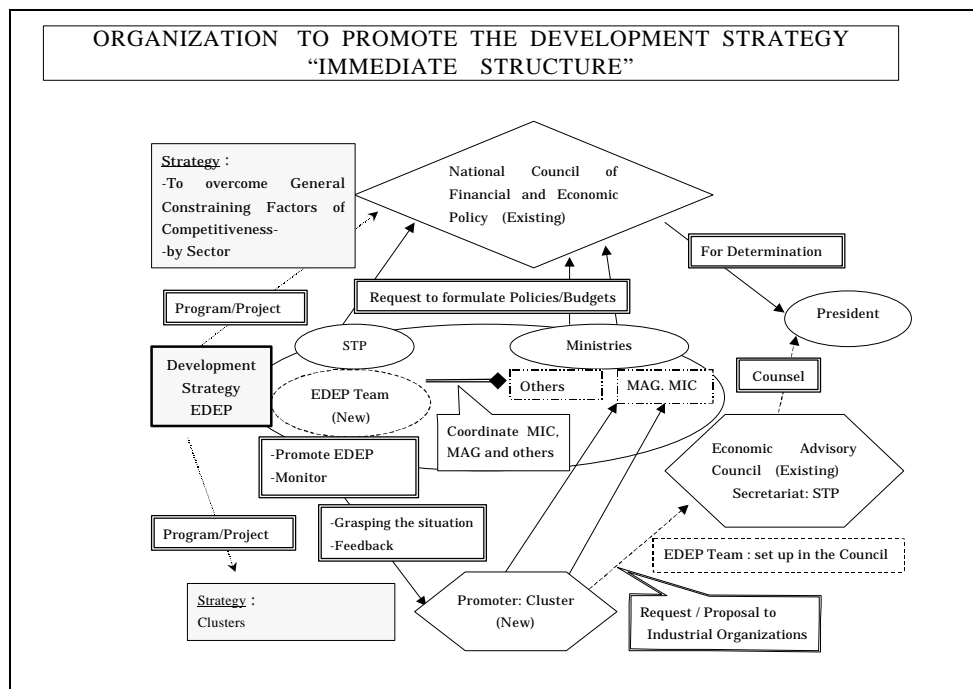
Promoter		
Public Sector	Private sector	Support Organ
MIC (branch office) MAG (branch office) Departmental office Municipalities	Cooperatives Enterprises Industrial Organizations	Departmental Council for Development (if applicable)

The promotion organization is formed, employing these 3 promoters above mentioned. The “immediate” and “future” organizations are further described as follows.

(1) “Immediate” promotion organization

The structure of the “immediate” promotion organization is shown below. As mentioned, the main objectives of this structure are to start the implementation of the development strategies and to use the existing organs as much as possible.

Figure 3 Promotion Organization : “Immediate” Structure



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

In this structure, the Technical Secretariat of Planning (STP), working as a counterpart to the study team, is required to carry the overall development strategies forward as an executive organ, because the Economic Advisory Council, for which the STP acts as secretary, is just an advisory organ to the President. The STP needs to take leadership in ensuring that proper decisions are made by the

government, and that they grasp the actual situation of the strategies and proper consideration is given to discussions in the Council.

It is therefore proposed that, within the STP, an EDEP team be formed which exclusively handles the development strategies of the study. This team is detailed in the section 2.2.6.

In the newly formed [Strategy of Cluster] 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 is organized locally, this strategy is very much related to the local government's policy. The department office and the municipalities should assist the private sector's representatives.

However, as decentralization is currently insufficient, there are various problems shown below. STP's coordination, which is extremely important in this organization, is requested.

The departments and the municipalities share the problems of a limited budget and authority. They are also 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 vital as a pipeline to the central government, however, the current number of offices is very small. Even the Ministry of Industry and Commerce (MIC), which has more offices than other administrative organs, has only 5 offices in the region. Each office has only a chief and his secretary.¹³ The Ministry of Agriculture and Livestock has just one resident staff in Caaguazú and sends its staff on a project basis when necessary.¹⁴ 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.

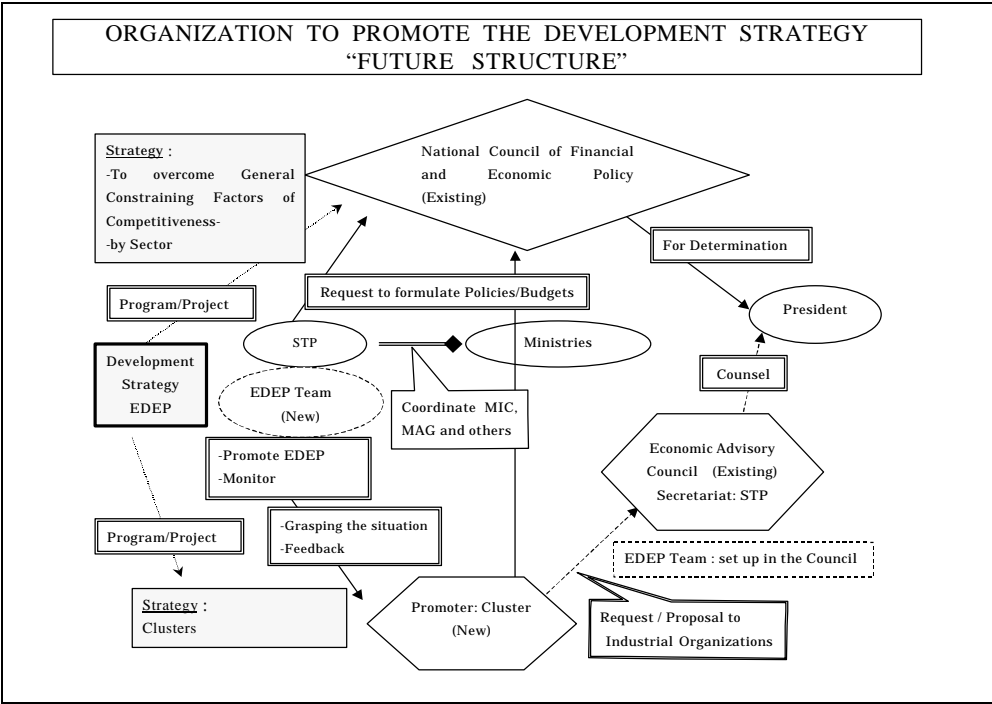
In the future it will not be necessary to have more than one pipeline connecting the central and regional governments, assuming the following conditions are satisfied: a) the ministries have more branch offices, b) the branch offices have more staff, c) the branch offices have more authority delegated and truly represent each of the ministries, and d) the branch and the departmental office work in greater cooperation.

¹³ Informed by MIC in May, 2000. Five regional offices (ORMIC) in the Departments of Caaguazú, Concepción, Guairá, Alto Paraná, Itapúa.

¹⁴ Informed by MAG in May, 2000. Several staff from DEAG are sent to transfer technology to the region, but not as administrative agents.

(2) “Future” promotion organization

Figure 4 Promotion Organization: “Future” Structure



It is assumed that existing organs are also employed in the future for the promotion organization.

As decentralization proceeds, the [Strategy of Cluster] promoter is expected to change and the operation flow may vary between this and other promoters.

The STP will continue to promote the overall development strategies EDEP as an executive organ. On the other hand, the Economic Advisory Council, with delegations from wide-ranging industrial organizations, should provide an opportunity for deliberation between the public and private sectors. The STP needs to take leadership in ensuring that proper decisions are made by the government, and that they grasp the actual situation of the strategies and proper consideration is given to discussions in the Council.

For these purposes, a reform of the STP is proposed and is detailed in section 2.2.6.

As stated above, the National Council of Financial and Economic Policy acts as the [Strategy by sector/ Strategy for general factors] promoter and is expected to attend promptly to the programs/projects suggested by each of the clusters in the future.

With respect to the [Strategy of Cluster] promoter, some modifications are made to the “Immediate” structure. The “Future” organization is formed based on the supposition that decentralization is developed to a greater extent, meaning 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.

Additionally, the STP continues to act as a pipeline between the above council and the [Strategy of Cluster] promoter to coordinate the overall development strategies.

2.2.3 Formation of the cluster promoters

Preceding sections discussed the make-up of the organization for promoting the implementation of the development strategy. The aim of establishing this organization is to systematically implement each development strategy by a promoter. However, in order to implement the proposals in this study as quickly as possible, and considering the government policy that does not accept the creation of a new administrative organs, existing government organs are used to the extent possible.

For these reasons, the only new organization presently proposed is the cluster promoter, and a general structure is already discussed in section 2.2.2. To explain the specific structure of this organ, 3 of the 6 model clusters proposed in this study are used below (vegetable, metalworking and mixed feed clusters, respectively).

Suppositions as to the actual members of each cluster promoter are included also. However, the members need not be limited to those shown here.

(1) Components of the cluster promoter

VEGETABLE CLUSTER

Table 8 Promoter & Components: Vegetable Cluster

MEMBERS OF PROMOTOR	
PUBLIC SECTOR	PRIVATE SECTOR
MAG (BRANCH OFFICE) MIC (BRANCH OFFICE) DEPARTMENTAL OFFICE MUNICIPALITIES	COOPERATIVES PROCESSORS
PRINCIPAL COMPONENTS OF CLUSTER (ILLUSTRATIVE)	
PUBLIC SECTOR	PRIVATE SECTOR
DEPARTMENT OFFICE MUNICIPALITIES MINISTRIES(BRANCH OFFICES) UNIVERSITIES INSTITUTE OF TECHNOLOGY LABORATORIES FINANCIAL INSTITUTIONS INSPECTION OFFICES CUSTOM OFFICES ETC.	AGRICULTURAL PRODUCERS PROCESSORS WAREHOUSES TRANSPORTATION COMPANIES CUSTOM BROKERS ETC.

As Caaguazú Department has been selected as the site for the model vegetable cluster, the relevant departmental office would be a member of the promoter. As for the city, given that the objective is the entire department, it is most appropriate to nominate the municipality of Coronel Oviedo, as it may be the center of the development of the cluster.

In this industry, the private sector has no strategic alliance. It is expected that the cooperatives and the processor will be the initial center of cluster promotion. The cooperatives, one of which actually takes initiative to work together with the departmental office and the municipalities on the foundation of a regional market, already have organization. The processors seek linkages with the farmers and other industry.

METALWORKING CLUSTER

The thinking behind public and private sector representatives for this promoter is the same. This industry is assumed to develop throughout the country.

As for public sector representation, departments in which the concerned industries are relatively concentrated, and the regional MIC offices of those departments, are appropriate. In terms of private sector representation, the majority of the firms in this industry are scattered throughout the country and

are small, with individualized skills. As a result, there is little cooperation between firms. Thus, initially, the industrial organization, CIME, would be an appropriate representative.

Table 9 Promoter & Components: Metalworking Cluster

MEMBERS OF PROMOTOR	
PUBLIC SECTOR	PRIVATE SECTOR
MIC (BRANCH OFFICE) DEPARTMENTAL OFFICE MUNICIPALITIES	CIME METALWORKERS

PRINCIPAL COMPONENTS OF CLUSTER (ILLUSTRATIVE)	
PUBLIC SECTOR	PRIVATE SECTOR
DEPARTMENT OFFICE MUNICIPALITIES MINISTRIES (BRANCH OFFICES) UNIVERSITIES INSTITUTES OF TECHNOLOGY LABORATORIES FINANCIAL INSTITUTIONS CUSTOM OFFICES ETC.	METALWORKERS IMPORTERS TRANSPORTATION COMPANIES CUSTOM BROKERS ETC.

MIXED FEED CLUSTER

Table 10 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) LIVESTOK BREEDERS FACTORIES(BEEF,PORK,CHICKEN) DAILY PRODUCT FACTORIES WAREHOUSES TRANSPORTATION COMPANIES CUSTOM BROKERS ETC.

Regional offices of the MIC and MAG would be appropriate public sector representatives. 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.

Here, again, the Department Council of Development (Consejo Departamental de Desarrollo de Itapúa)¹⁵ should be considered for inclusion. As an organization designed to foster regional development, identical to the goals of this study, they should be worked with as much as possible.

The promoter structure for 3 model clusters above has now been outlined. The structure of the remaining 3 model clusters proposed in this study should likewise be based on both public and private sector representation.

The primary role of the promoter will be to form the clusters. However, determining the make up of the promoter is, above all else, of fundamental importance. The success or failure of the clusters will depend largely on the effectiveness of the promoter.

For that purpose, leadership within the promoter is vital. The leader will be expected to focus on the structure of the promoter, work with other members to establish proper management, and carry out the formation of each successive cluster. In forming the clusters, the first task will be to distribute information and gather members. Holding seminars and interviews would be a good means of achieving this.

After clearly understanding the merits of the cluster strategy, the leader is needed to voluntarily explain these merits to other members of the promoter and the cluster members themselves.

Who should be chosen as a cluster leader? As mentioned, in starting up a cluster, leaders should be identified to form the cluster based on the unique conditions of each cluster. This study shows the consideration on prospective leaders for each cluster, below in tables 11 to 13.

(2) Leader of the cluster promoter

VEGETABLE CLUSTER

Considering the environmental conditions involved in forming a vegetable cluster, an agricultural cooperative or food processor would be a good candidate for leader.

However, looking at examples from other countries, a food processing firm seems most able to take initiative and is, therefore, most appropriate.

¹⁵ Referred to in section 2.1.3. 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.

Table 11 Leader : Vegetable Cluster

	Producers	Cooperatives	Processors	Joint ventures with foreign entities	100% foreign investment	Public Sector
Currently in existence?	Yes	Yes	Yes	No	No	Local government/ Branch Offices (ministries)
Current position of relevant field	Small farmers act independently	Develop the productive activity in organized form, but do not have strategic alliance	Has collaboration with the producers but has no strategic alliance	N/A (not applicable)	N/A	Provide technical assistance. Transmit needs to Central government.
Does it take effective leadership?	Independent and incapable of connecting other possible components	Possible to connect other components, using the existing organization	Possible to be core, with purchasing power. Actually some seek alliance with producers and others. Take the leadership in some countries.	N/A	N/A	Respect the private sector's initiative. Serve as bridge to facilitate communication among the private sector.

METALWORKING CLUSTER

The firms that are expected to make up the metal working cluster are generally small scale and developing independently. As mentioned in the study, metal workers will be core to the clusters, yet they have virtually no linkages. It is therefore impossible to expect leadership from any individual firm. The industrial organization, CIME, should therefore take the leadership role in the initial stages.

Table 12 Leader : Metalworking Cluster

	Metalworkers	Joint ventures with foreign entities	100% foreign investment	Public Sector
Currently in existence?	Yes	No	No	Local government/ Branch Offices (ministries)
Current position of relevant field	Core on relevant field	N/A (not applicable)	N/A	Provide technical assistance. Transmit needs to Central government.
Does it take effective leadership?	Act independently with proper technology and is not motivated to form organization	N/A	N/A	Respect the private sector's initiative. Serve as bridge to facilitate the communication among the private sector.

Existing Industrial organization takes leadership due to the current situation

MIXED FEED CLUSTER

Various industries exist in this cluster. And, as a single economic actor each individual business have developed to a degree. However, 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. They are planning to continue to expand.

Considering the above, 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 13 Leader : Mixed Feed Cluster

CLUSTER LEADER MODEL : MIXED FEEDS							
	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.

In this study, leader candidates have been proposed from the core firms and industries within each model cluster. They have an interest in vertical and horizontal connections. However, the possibility of another leader is not out of the question. Some other country examples are considered in section 2.2.5.

Individual discussions were held with each prospective leader during field surveys in May 2000. As a result of these meetings, they agreed on the necessity of forming the promoter and accepted leadership based on the following conditions: a) the other member of the private sector portion of the

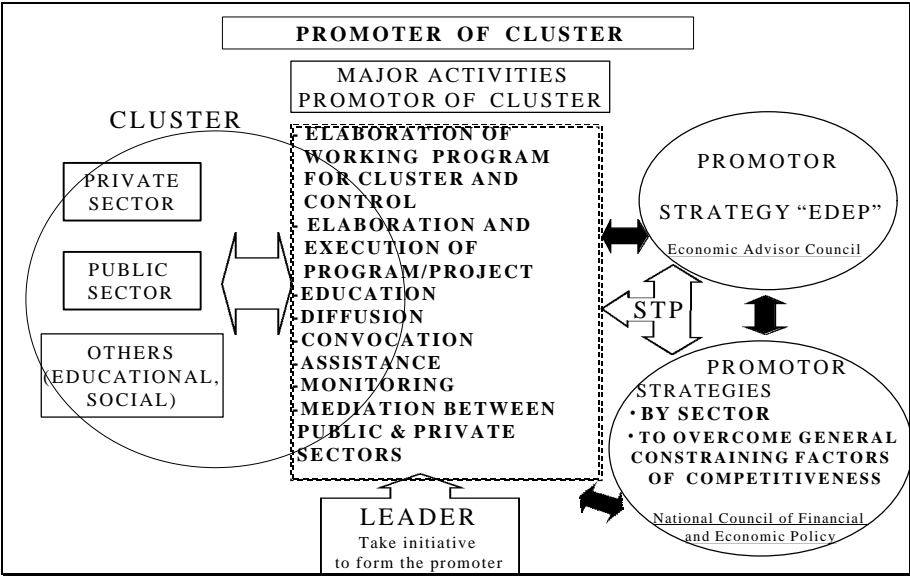
promoter will work together with them, and b) support will be given for the organization’s activities. As for the prior, the STP (full time cluster staff) will need coordination between the two private members. As for the latter, cooperation by the experts of the development strategy in the STP and its full-time cluster staff, is necessary to diffuse and spread the cluster base.

As can be seen in the above, the representatives of the private sector in the cluster promoter act together as leader and form the cluster in association with the departmental office and municipalities representing the public sector. These leaders also are expected to be coordinators and play a role in fostering linkages among cluster members.

2.2.4 Activities and work flow of cluster promoter

As mentioned before, the promoters are set up to implement the development strategies proposed by the study. In this section the role of the cluster promoter and the relationship with the other promoters are described.

Figure 5 Cluster Promoter’s Role and Linkage with Other Promoters



The cluster promoter will initially carry out the following activities. The representatives of the private sector, who are to act as leaders, take initiative for the overall activities, but the public sector should work together with them:

(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, and 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.

A description of the operation flow of the promotion organization follows, taking the case of diffusion activities of the cluster strategy for possible cluster members, which is the first step toward creation of the cluster.

- a) the promoter asks for central government recognition of the cluster leader, via the STP.
- b) the promoter requests the STP for the support necessary to establish the cluster. First, it is necessary to send a representative to regional areas to educate society on the concept of the cluster and the necessity of an alliance between members.
- c) additionally, the promoter should request the STP that the persons selected internally in the promoter be trained to diffuse information later by themselves.
- d) In connection with a) & b), the STP sends their experts to train the individuals selected.
- e) STP should discuss this training system with the relevant ministries, and request the National Council of Financial and Economic Policy to formulate the policy/budget when necessary. The STP should present the issues to the Economic Advisory Council and aim for a consensus to counsel the President.
- e) Aside from the Economic Advisory Council, the cluster promoter must request STP support via the STP resident staff. On the other hand, the private sector makes requests to the appropriate industrial organization. Similarly the STP, transmits the request to the Economic Advisory Council and advises the President as to the necessity of sending experts and of personnel training.
- f) For the time being, the resident staff of the respective ministry branch office are needed to relay the above requests to their head offices.

2.2.5 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.

The Ministry of Economy, which leads the program, says that it is still premature to declare success or failure, although four years have passed since the introduction of the program. This program may provide valuable knowledge as to how to proceed with the formation of the clusters.

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. And it is especially mentioned that the private sector's experience is used as much as possible.

(1) How has the cluster been formed?

To form the clusters selected by prior study, the Ministry of Economy showed leadership in the education of the private sector concerning the following two points:¹⁶

- a) the necessity of reform (they will continue to fall behind if circumstances do not change)
- b) the advantages of clusters

Initially, the Ministry of Economy set up an internal working team called the "Programa Nacional de Competitividad". The staff was given exclusive charge over clusters. They are not government officials but private citizens employed for the program. The private sector is centered for the promotion of the cluster strategy. The experience and know how of the private sector is greatly expected to be utilized. The staff also coordinates with other ministries to organize the cluster.

The chief role of the staff is "seeding". This involves diffusing the cluster to the private sector and teaching them the advantages of the cluster, so as to organize an alliance between producers and the processors, who are developing their activities independently. In practice, repeated seminars and interviews were held with each of the possible members. This practice continues today.

Up until now, the ministry staff has taken strong initiative, and it appears that the public sector is the leader. Actually they are working together with each cluster leader. The ministry seeks to keep the lead role until the private sector is able to lead the cluster independently.

(2) How has the leader been elected?

There are two typical ways to elect the leader, either by public sector initiative or private sector initiative.

¹⁶ 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 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 alone found the enterprises that make innovative products.

Initiative taken by the private sector:

- a) This has occurred when firms in the same trade shared problems concerning exports and 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.

(3) 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 1997.¹⁷ 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 form clusters as effectively as had been initially expected. The main reason is that the representatives of the public sector were not delegated proper authority. Unless sufficient authority is delegated, quick action to satisfy needs can not be 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.

¹⁷ 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.

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

- a) It is very important to identify the leader. The leader need not be a large company representing the relevant 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) To make clear the meaning of the cluster, it is indispensable to continually educate regarding cluster activities through seminars, interviews and so on. Education and diffusion activities may extend over a long period and the public sector needs to play a key part 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.
- 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.¹⁸

The above lessons from El Salvador can be applied to Paraguay with some adjustments to account for unique characteristics in Paraguay. The private sector's initiative and experience is widely used.

2.2.6 STP's role

Although the development strategies proposed by the study are based on private sector initiative, it is clear that the role of the public sector is large. For example, a legal framework that guarantees free entry and free competition is required. In order that the benefits of the cluster do not only accrue to those that are particularly strong, it is necessary to create a transparent framework. This framework can only be built by the public sector.

As stated in the section 2.2.5, the government of El Salvador is strongly committed to the strategy of the cluster. The government has maintained this strategy in spite of the change of government in 1999.

¹⁸ "Crecimiento con Participación: Una Estrategia de Desarrollo para el Siglo XXI, Chapter Three" by FUSADES (Fundación Salvadoreña para el Desarrollo Económico y Social), which is a Salvadoran private research institute.

Among other ministries, the STP has important roles as a promoter and as a coordinator for the overall development strategies as an executive organ. The following activities of the STP and changes to the organization are proposed.

Between the Economic Advisory Council and the STP :

The STP takes the initiative for the following activities:

- a) to call up all the ministries and industrial organizations concerned, according to Table 2, in order to set up a team which works exclusively for the development strategies “EDEP” within the Economic Advisory Council
- b) to coordinate the various opinions on the requests and proposals at the working team, sent from the different clusters via the industrial organizations, and to monitor the progress of the overall development strategy and to counsel the President

This Council takes charge of promoting the overall development strategies, while the STP takes initiative as an executive organ, in all aspects of the promotion. This Council represents most of the industries in the country. It is strongly expected to support and even press the STP when it is slow to take an action.

Between the [Strategy of Cluster] promoter and the [Strategy for general factors / by sector] promoter, and the STP :

The STP needs to motivate the private sector to form the promoter so as to organize the cluster. It will link the leader candidates of the promoter and work together. This is the most important role initially.

Communication with the central government, when their support is needed, is difficult. As already stated, currently the public sector has difficulty putting various opinions on the request or proposal together and submitting them in a unified form to the central government (say, the National Council of Financial and Economic Policy). For the moment, then, the branch office of different ministries and the departmental office transfer requests/proposals through their own line.

Similarly, in the private sector each member of the promoter conveys their request or proposal to the industrial organization they belong to, which are members of the Economic Advisory Council.

Considering this environment, the STP needs to have exclusive staff for each cluster in order to closely communicate with the members of the promoter and with the other promoters as well. The STP is expected to coordinate the issues brought by the staff with the other ministries and then to submit relevant requests to the National Council of Financial and Economic Policy.

Implementation follow-up:

Clearly, proper implementation is vital to success. Equally, monitoring implementation progress and providing feedback are necessary. They are the role of the EDEP team, established within the Technical Secretariat of Planning (STP):

- Monitoring the formation and management of each individual cluster.
- Identifying factors that impede progress. Devising and implementing solutions to these problems.
- Providing guidance and advice to the cluster promoters, as needed.
- Acting as coordinator for Government Ministries and the Economic Advisory Council.
- Developing new cluster proposals/policy as needed.

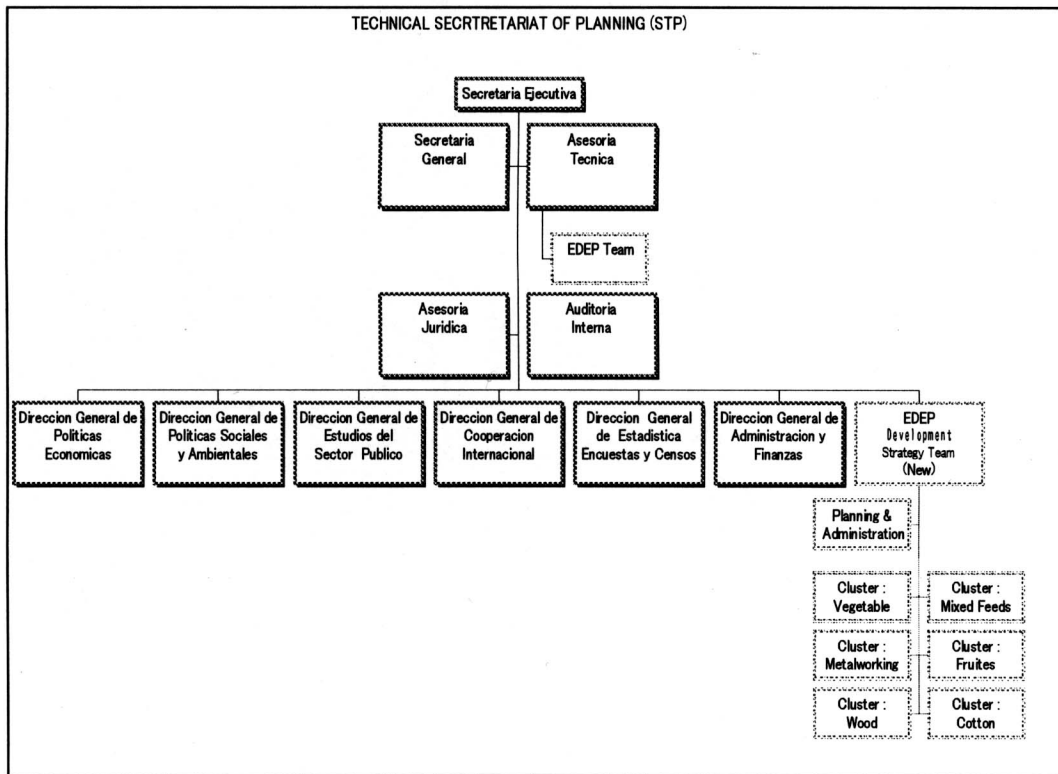
[Reform of the STP]

The STP takes the responsibility to promote the overall development strategies, as the executive organ, centered at the promotion organization, and to coordinate each promoter and organs involved. Then, the STP is advised to set up a new team to work exclusively for the development strategies EDEP and have resident staff in the region for better communication and understanding of the current situation. To form a new team, the appointment of some private citizens can be taken into consideration, as their know how and experience can be utilized. They work exclusively for this project EDEP.

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

The reformed STP is proposed as follows.

Figure 6 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)

2.3 PROPOSAL

The necessary actions for the formation of the proposed organization and its effective administration, are outlined in this section.

As the formation of the promotion organization is vital to the success of the implementation of the development strategies, it is urged to materialize the proposal as soon as possible.

Program/project:

Establishment of the organization to implement the development strategy

Duration:

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

Objective:

- a) to promote the implementation of the development strategies
- b) to support enlightenment/diffusion of promotion activities in order to implement

the cluster strategy

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

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 Technical Assistance office of the STP: business administration, marketing, legal issues, technology, cluster formation/development
- e) Set up the EDEP team in the STP: i) to form the Planning & Administration Dept to coordinate the overall strategies EDEP, and Cluster Dept., ii) to post staff in the central and regional office. Some private citizens are appointed for this project when necessary.

Estimated costs:

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