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**EVALUATION OF THE**  
**PROJECT DEVELOPMENT ASSISTANCE PROGRAM**

Report to Regional Development Office/Caribbean  
United States Agency for International Development

By:  
Lawrence E. Harrison, Consultant  
and  
Richard L. Bolin and Robert C. Haywood,  
International Parks, Inc.  
P.O. Box 986, Flagstaff, Arizona 86002

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**TABLE OF CONTENTS**

	<b>PAGE</b>
	<b>-----</b>
<b>I. BACKGROUND</b>	<b>2</b>
<b>II. METHODOLOGY</b>	<b>2</b>
<b>III. FINDINGS</b>	<b>4</b>
<b>IV. RECOMMENDATIONS</b>	<b>16</b>
<b>ATTACHMENT I. SCOPE OF WORK</b>	<b>23</b>
<b>ATTACHMENT II. INDUSTRIAL DEVELOPMENT STRATEGY</b>	<b>25</b>
<b>ATTACHMENT III. PRIVATE INDUSTRIAL PARKS</b>	<b>29</b>

## I. BACKGROUND

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The Project Development Assistance Project (PDAP) was designed by AID's Regional Development Office/Caribbean in 1980 principally to accelerate the flow of completed public sector project requests from the Eastern Caribbean islands to the Caribbean Development Bank. In the original design, investment promotion was a secondary mission. The islands of chief interest were Antigua, Dominica, Montserrat, St. Kitts/Nevis, St. Lucia, and St. Vincent. Belize was subsequently included in the project.

At the heart of the project design was the concept of stationing one experienced development generalist in each of the islands and Belize, with a more senior professional in Barbados coordinating the activities of the others. Further support would be provided from the contractor's headquarters in the United States.

Coopers & Lybrand (C&L) was selected as the contractor, principally because of the high relevance of the experience of proposed C&L team members to the task. The contract was signed on September 28, 1981 (LAC-0042-C-0053-00). C&L subcontracted with Louis Berger International both for feasibility study services and for some of the team members.

The original project design has been significantly modified during execution. The originally secondary mission of private sector investment promotion is now the dominant activity, while public sector project development has a much-reduced priority. Two developments explain this shift: (1) increasing concern about unemployment in the islands, and (2) a heightened AID interest in the role of the private sector in development.

PDAP has been underway now for 23 months since the contract was signed and 20 months since the team was fielded. This is the first evaluation.

## II. METHODOLOGY

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The evaluation team consisted of three members: Lawrence E. Harrison, a retired AID officer; Richard L. Bolin, of International Parks, Inc. and The Flagstaff Institute, and Robert

C. Haywood of Aspen International, Inc., a consultant to International Parks, Inc. The scope of work of the evaluation is Attachment I.

Field work began on July 18, 1983 in Barbados and continued through July 28. During that period, evaluation team members met with USAID staff members and the U.S. Ambassador to Barbados and the Eastern Caribbean. They visited C&L representatives in Barbados, St. Vincent, St. Lucia, Belize, Antigua, Dominica, and St. Kitts, where they also met local public and private sector people. Robert Haywood also visited Montserrat. Lawrence Harrison and Richard Bolin met with the entire C&L Eastern Caribbean field team in Barbados on July 22.

The first draft of the report was prepared by Messrs. Bolin and Haywood after Mr. Harrison's departure on July 28. The three members of the evaluation team met again in Washington August 8, and Messrs. Bolin and Haywood spent most of that week in discussion with the C&L Washington staff. Messrs. Harrison, Bolin, and Haywood met with the C&L Washington staff on August 9.

### III. FINDINGS

#### A. General

We consider PDAP a promising approach to investment promotion, well adapted to the special needs of the small islands of the Eastern Caribbean and Belize. Alternative approaches are theoretically possible, but in the real world of these islands and Belize, there does not appear to be any viable alternative, at least in the short run, to a team of resident advisors hooked into an international promotion network.

PDAP has managed the transition from public sector to private sector emphasis without major difficulties. However, the private sector focus necessitates some important modifications in the goals and structure of the project.

#### B. The current goals of PDAP are insufficiently ambitious

PDAP is working against a target of creating 3000 industrial jobs by the end of the original contract period. This figure is far too modest -- it is not enough to cover annual new entrants into the labor force, much less the sizeable pool of unemployed. For example, in 1985 Dominica alone will be shooting at a target of 1000 new industrial jobs per year.

PDAP has played a key role in promoting thirteen new enterprises now underway. These enterprises currently account for 226 jobs, but are expected to employ almost 2000 people when in full operation;

PROJECT	EMPLOYMENT	
	CURRENT	PROJECTED
1. Antigua Stone Cutters	5	11
2. Aloe Vera, Dominica	10	50
3. Elliot Rose, St. Kitts	-	60
4. Lobster Traps, Belize	5	50
5. Pico Products, St. Kitts	8	700
6. Pico Products, St. Vincent	60	125
7. Brabo, Ltd., St. Lucia	2	10
8. Caribbean Containers, Dominica	-	50
9. Shrimp, St. Kitts	2	10
10. Wilson Sporting Gds., Dominica	-	200
11. Wilson Sporting Gds., St. Vincent	120	400
12. Caribbean Fish Coop., Belize	14	30
13. Cantaloupe, Belize	-	50
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TOTAL	226	1986

C. The field representatives are an unusually capable and well-suited group of generalists.

Although their backgrounds in investment promotion are limited, they have adapted well to the new priorities and are performing effectively. In addition to their primary investment promotion roles, several are providing valuable general advisory services to their host governments. Some are also involved, although on a decreasing basis, in public sector project activity.

D. The investor search operation in Washington, DC is producing modest results.

Investor search activities of PDAP are centered in the C&L Washington office. The investor search team consists of three consultants (one experienced investment promotion manager, one garment expert, and one electronics expert with Eastern Caribbean experience) backed up by five C&L employees in Washington and linked to C&L offices around the world.

Investor search has concentrated on the United States, but has also included Asia (particularly Hong Kong) and Europe. Investor search has been viewed as a professional services function to seek and provide information to firms of potential interest to PDAP countries. The search for potential investors has involved the preparation of lists of prospects, brochures, mailings, trade shows, seminars, telephone contacts, direct sales calls, and followup of leads, as well as the handling of investor visits to the Caribbean and Belize.

The search operation identifies itself strongly with the consulting practice of C&L and publishes most of its information under the C&L name. An objective consultant/client relationship with the potential investor has been the mode of operation. We analyzed investor search activities for the six months ending June 30, 1983:

	TOTAL CONTACTS MADE IN PERIOD -----	POSITIVE CONTACTS -----
Mailings (8)	3234	59
Trade Shows (8)	Thousands	143
Seminars (9)	784	116
Companies visited by PDAP worldwide		121
Companies visiting PDAP countries		17
Inventory of contacts in followup file		5870
Inventory of hot prospects		
U.S.A.		54
Asia		21

In terms of measurable results so far, the effect has been to deliver three interested visitors to the Caribbean and/or Belize per month during the six-months period. Since the first six months of 1983 have seen a favorable upturn in client visits in Mexico and elsewhere, and since the PDAP program has had a year to gear up for promotion before entering the period, it is fair to describe the results as modest.

Experience elsewhere suggests that the number of visitors will have to be vastly increased if a really significant dent -- say, 30,000 new jobs by 1990 -- is to be made in unemployment.

## Analysis of Promotion Program

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The contrast between the strength of the PDAP program in the field and the weakness of the Washington promotion activity is marked. Keeping in mind that the only purpose of the present analysis is to improve the success of PDAP, the following review of strengths and weaknesses of the present program is offered:

### Strengths:

1. One thoroughly experienced industrial promotion specialist is a consultant to PDAP -- he continues to maintain his home in New York.
2. A year of experience in attempting to attract industry to PDAP countries by various means.

### Weaknesses:

1. A poor location for headquarters away from the business mainstream in New York.
2. Inexperience in industrial promotion on the part of the entire Washington staff (except after beginning work on PDAP).
3. A program which is much too passive and too tied to the C&L image -- and much too small to be effective, given the new targets to be set.
4. A generalized approach to promotion which uses accepted methods (mailings, seminars, luncheons, etc.) through diffuse promotion media (Department of Commerce, OPIC, Caribbean/Action, trade shows, etc.), but which does not pre-select target firms, pre-research why those firms should choose PDAP countries in preference to all others, nor concentrate promotion efforts on the few good targets rather than the many poor ones.
5. Overconcentration on secondary markets, such as Asia, at the expense of prime United States market promotion.

E. The fact that industrial buildings are not immediately  
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 available and can have a lead time of as much as 18 months  
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 is a major obstacle to achievement of PDAP's goals.  
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There have been recent cases in the Eastern Caribbean where the non-availability of a building has been the cause of a lost investment.

The policy of having a number of buildings built in advance of need has resulted in the successful conversion of potential clients to active clients all over the world. It is a firm recommendation of the World Bank and the Inter-American Development Bank for all loans made for industrial estates and Export Processing Zones.

We have been told that Caribbean Development Bank (CDB) limits construction disbursements to one factory building in advance of firm commitments to occupy space, which is likely to be inadequate if the pace of development accelerates. We further understand that CDB is constrained either by its own rules, or those of AID, to design and bidding procedures which involve inordinate amounts of time.

In any event, there is a virtually full consensus among governments, the private sector, and development assistance institutions that the building problem is a major bottleneck.

F. PDAP is also engaging in public and private sector  
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 feasibility and marketing studies, the quality of which  
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 is mostly good, but the priority of which is questionable  
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 within the new industrial investment/jobs focus of the  
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 project.  
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PDAP has financed ten technical studies, five of them concerned with infrastructure:

1. Canefield airport
2. Bequia airport
3. Palm Island marina
4. Antigua marina
5. St. Kitts peninsular road
6. St. Kitts bamboo/rattan
7. St. Kitts sericulture
8. Belize lumber
9. Belize textiles
10. Dominica bananas

Fourteen marketing studies have been conducted:

1. U.S. bicycles
2. Logwood dye
3. Coconut oil
4. Bee pollen
5. Fustis
6. Annatto
7. Tapestries from Montserrat
8. Tropical plants
9. Arrowroot (St. Lucia)
10. U.S. rum market
11. Batik
12. Refrigeration
13. Aloe Vera
14. Tropical fish

In general, these technical and marketing studies have been of acceptable professional quality. However, the infrastructure studies, although in most cases indirectly supportive of the employment objectives, lie outside the industrial investment/jobs focus toward which PDAP has evolved. The marketing studies are more relevant to this focus. Moreover, some have addressed industries (e.g. bananas in Dominica, arrowroot in St. Lucia) which touch on major issues of public policy. But they imply dependence on local capital and knowhow, and are unlikely to lead in the short term to creation of large numbers of new jobs. That can only be achieved by the establishment of employment-intensive industries by foreign companies (or joint ventures involving foreign companies) which have well-established technologies and markets outside CARICOM.

G. PDAP is not currently designed to transfer investment  
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 promotion knowhow to host countries.  
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All of the PDAP field advisors have continuing contacts with public and private institutions concerned with investment promotion, and some institutionalization is occurring. But the PDAP advisors, in the absence of a specific institutionalization responsibility, often operate with considerable autonomy. Should the advisors depart, several of the countries would be left with extremely limited capacity to handle those aspects of investment promotion which occur in-country.

H. Linkages with USAID, other donor organizations, and other  
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 investor search and promotion organizations are generally  
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 adequate.  
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Both the PDAP field personnel and the concerned USAID personnel find their continuing close dialogue constructive and useful.

The Caribbean Development Bank is the principal other donor contact of PDAP. PDAP's autonomy, its inevitable role as an advocate of the government's position, and its increasing focus on investments from outside the area have led to some problems, but they have been manageable. PDAP and CDB cooperated closely

in the mission to Puerto Rico recently to acquaint Eastern Caribbean businessmen about the possibilities for "twin-plant" operations with Puerto Rico. CDB provided funding for local businessmen to go on the missions which PDAP arranged, and which evidently went well.

PDAP also maintains contact with other donors, including OPIC, CIDA, the UK aid program, various UN agencies, the Peace Corps, and the International Executive Service Corps.

Most activity to link PDAP with other investor search and promotion organizations in the United States takes place in Washington. Here contact is maintained with the U.S. Department of Commerce Caribbean Basin Initiative Section, the U. S. Chamber of Commerce, Caribbean/Action, and various trade associations. At times such organizations can be useful to reach broad segments of the potential investor market, as well as be the sources of individual leads which present themselves. For the most part, however, we believe that they are not efficient -- they can require a lot of time and effort to maintain contact, and they have so many competing organizations seeking their favors that an individual country's efforts become lost. Finally, the people they tend to contact are rarely industrialists seeking plant locations -- rather they tend to be the bankers, lawyers, and consultants seeking clients.

The C&L Washington office is also in touch with the UNIDO investment promotion center in New York, where six trainees from Eastern Caribbean countries will soon be stationed.

**I. PDAP's management systems appear to be generally adequate**  
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However, the reporting system is not adequately geared to the new private sector focus of the project, and the structure of the budget emphasizes inputs more than it does outputs.

**J. A budget shortfall is looming.**  
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Based on figures as of the end of April, 1983, 57% of the original budget (amended to include Belize) had been expended during 44% of the length of the project. C&L has proposed a revised budget which would add about \$280,000 and shorten the length of the project by three months;

	Original Budget		Proposed Budget	
	\$000	% Expended 4/83	\$000	% Expended 4/83
Direct Labor/OH	1847	67	2128	60
Consultants	304	40	251	32
Travel	228	90	373	55
Allowances	830	27	519	44
Equipment	9	51	10	47
Other Direct	132	(26)	352	67
Subcontracts	1883	49	1822	50
G & A	323	70	383	60
Fixed Fee	220	55	220	55
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TOTAL	\$ 5778	57%	\$ 6058	54%

Contributing to the impeding overrun are the new emphasis on investor search, which has led to a larger operation in the United States than had originally been anticipated; the need to place field representatives in C&L Caribbean offices due to the lack or inadequacy of office space and associated facilities provided by local government; and, also related to the new focus, much higher transportation and communications costs than originally budgeted.

We consider that the revised budget proposed by C&L is inadequate for three reasons:

1. It would terminate the field advisors prematurely;
2. It dedicates too much resource to subcontracts;
3. It understandably (since C&L has not been asked to do so) does not include resources for institutionalization of PDAP in host country organizations.

## K. Special Issues

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### 1. Belize

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Belize is a PDAP anomaly. By contrast with the Eastern Caribbean islands, Belize is large and underpopulated. Its location on the Central American isthmus is closer to Washington, D.C. than it is to Barbados. It is the only PDAP country in which there is a U.S. Ambassador and AID representative.

While there are good reasons to continue the PDAP advisor in Belize -- his agricultural background and link to the C&L worldwide network are valuable -- there are almost no good reasons for having him report through the PDAP coordinator in Barbados.

### 2. Montserrat

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Montserrat, with a population of about 12,000, is by far the smallest of PDAP's client islands. Its leaders feel neglected, importantly because they expected first a foreign full-time PDAP advisor and then a West Indian advisor, neither of whom materialized. Montserrat has refused to share an advisor with another island. It was never AID's intention to locate a full-time foreign advisor on Montserrat. The idea was never proposed formally to Montserrat.

Montserrat has, however, requested short-term technical assistance for its Sea Island cotton operation, and will soon request help for its tannery.

### 3. Labor

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The labor movement in the Eastern Caribbean is relatively well-organized and often closely-linked to political parties. There is currently no evidence that labor organization is viewed by potential investors as a deterrent. However, as labor-intensive investment expands, it is important that, within the framework of its obvious responsibilities to its membership, organized labor's role be a constructive one, reflecting its awareness of the increasingly competitive environment in the Caribbean Basin. (PDAP has maintained close links with the

Caribbean Congress of Labor, based in Barbados, and has on-going day-to-day links with organized labor in each of the islands.)

#### 4. Shipping

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The problem of shipping in the Eastern Caribbean is like the weather; everyone complains about it, but not much gets done about it. Recently, for example, it was discovered that shipment of a 20-foot container from the Eastern Caribbean to Miami costs \$100 more than that from Hong Kong to Miami. We have no recommendations to make other than that public development institutions and private enterprises must constantly be seeking ways of achieving cheaper and more frequent service.

#### 5. Some Semantic Problems

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We have noted the wide use of three words in the Eastern Caribbean which have negative overtones:

FOOTLOOSE -- This word is used to describe labor-intensive industry of the kind PDAP wants to attract to the region. It has negative overtones to American investors and to governments. What industry wants to be described as flighty, fly-by-night, or unreliable? What government wants to be seen as currying the favor of a company which will disappear without notice? A series of better words would be:

labor intensive  
light-assembly  
production sharing.

ENCLAVE -- This word is used to describe industry which imports raw materials and machinery and exports 100% of its product. The problem is that the overtones of the word are "protected fortress where foreigners carry out strange and possibly dangerous activities isolated from contact with the local population" (like the Russians in Afghanistan). Much better words to use with Americans, at least, are:

in-bond  
drawback  
toll-manufacturing

**SHELL -- This word is used to describe a basic factory building ready for fitup by the client. The implication of the word "shell" instead of "building" is one of bare minimum structure (frame, outer walls, roof, but no floor) into which the client must pour great resources and accept time delays. In contrast, factory buildings erected in export processing zones and industrial parks frequently have floors, insulated roofs, sanitary facilities, factory lighting, and finished office space -- and are already connected to public utility lines. To call a "building" a "shell" is to downgrade it. We recommend that PDAP and others use the following words instead:**

**factory building  
industrial building  
factory  
manufacturing facility**

#### IV. RECOMMENDATIONS

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(LETTER HEADINGS CORRESPOND TO THOSE OF THE FINDINGS SECTION)

A. Continue PDAP for an additional three years with the  
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modifications suggested below;  
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B. Substantially higher job creation targets should be  
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established.  
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The scale of the unemployment/underemployment problem in the Eastern Caribbean and Belize is small enough that it should be possible to make a significant reduction by 1990.

The setting of new targets requires a further analysis of unemployment and prediction of the net flow of new job applicants, keeping in mind that new industrial jobs will generate substantial numbers of additional supporting or servicing jobs. Estimates should be developed with the governments concerned. Anthropological studies should be made over time to assess the human and social benefits of rapid industrialization based primarily on exports of manufactured goods outside CARICOM.

Clearly, PDAP alone cannot be responsible for the achievement of the more ambitious targets. Other factors, including the availability of industrial buildings, the attitudes of governments, and world economic conditions, will affect the results. But PDAP, as the promotional arm of the effort, will have a central role.

C. Keep the field representatives in the field through 1987.  
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Their functions will be somewhat modified by subsequent recommendations -- e.g. more of their time will be spent building national institutions, more of their time will be spent in promotional work in the U.S. But they will continue to serve as a crucial element of the PDAP structure until there are West Indian institutions ready to take over the field work.

D. The substantially greater magnitude of promotional  
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 effort required to meet a far greater jobs target calls  
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 for a departure from the "professional services investor  
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 search" approach in both label and style.  
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We believe that "investor search" should become "investment promotion", that the promotion budget should be considerably enlarged, that a sales manager with full authority to act should be appointed, and that headquarters of the sales activity should be moved to New York to better serve its market. The information activity, research activity, and promotional materials production activity should be under the sales manager and located also in New York.

Conceptually, the present operation is too passive. We believe a sales organization advocating investment in the Eastern Caribbean and Belize would be more effective than an objective professional service organization. We recognize that this recommendation may be difficult for C&L since objectivity is part of a professional consultant's reputation.

Nevertheless, separation from the C&L practice both in name and in location would limit this difficulty. Since we believe strongly that New York is a significantly superior location for investment promotion, the operation should be immediately transferred to a New York location.

New York is in the mainstream of business travel. The ability to make personal contact with business advisors and decision makers in New York is far greater than in Washington. New York is the national center for investment promotion operations.

This new operation should appear to be distinct and semiautonomous of C&L. The operation should be managed by a sales manager or promotion specialist. PDAP field advisors and counterparts should spend considerable time -- perhaps two or three months a year -- working out of the New York office. In time, the functioning of this office could be turned over to West Indians and become a regional investment promotion office.

Promotional work should give by far the highest priority to United States investors. Eastern Caribbean benefits under the Lome convention should be stressed.

Some further industrial development strategy issues are addressed by Richard Bolin in Attachment II.

### New Directions in Promotion

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Where once there were a few developing countries trying to attract labor-intensive industry, today there are twenty. In a very few years there will be forty serious contenders.

The endless repetition of diffuse publicity which was good for Puerto Rican promotion thirty years ago will not work today, except at very great expense. This does not mean that opportunities for low-cost publicity should be ignored, nor that participation in diffuse publicity events like trade shows, Department of Commerce functions, etc. should be dropped completely -- but it does mean that the time of key promoters in the PDAP system should not be wasted at such functions.

Instead, more resources should be committed to research as to what advantages of PDAP countries can match the specific needs of a particular product group or industrial sector. More attention should be paid to seeing to it that the specific target firms really understand what these unique advantages are and what they will mean to the bottom line at the end of the year, and why they cannot be duplicated by competing countries.

Specialized promotion should be the rule: there should be meetings held with key individuals within a given target firm (or with its board of directors) where a narrow prepared presentation exclusively for that firm and showing how it can benefit from PDAP would be made. The PDAP field advisors could play key roles in such efforts.

The same kind of attention should be the rule for followup of leads generated with serious companies by such specialized efforts.

The risk of concentrating on fewer firms can be overcome by the strong impression made by the careful research carried out on behalf of the firm, the advocacy position of the promoter, and the commitment to development shown by the PDAP country. And the cost per job created can be kept reasonable in comparison to that of the more diffuse media approach.

The overall budget, measured over a decade, should be in the range of \$300-\$700 per factory job created.

E. With respect to the shortage of industrial buildings, we  
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have two recommendations;  
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1. Establish a task force comprised of the Caribbean Development Bank, the countries, USAID, and PDAP to try to make the existing CDB system more agile.

2. Promote the establishment of privately owned and operated industrial parks to speed up job-creation and reduce its costs as well as to involve the local private sector directly in the investment attraction process.

The private industrial park concept is elaborated upon by Richard Bolin in Attachment III, in which he stresses the agility and commitment which such parks bring to the investment promotion process. We recommend three steps deriving from his comments:

1. The USAID should obtain technical advice on how to create and operate private export industrial parks in LDC's.

2. Financial incentives, including soft loans, and technical assistance should be made available to West Indian and other entrepreneurs interested in developing private export industrial parks.

3. Contacts should be arranged between such West Indians and successful private export industrial park promoters/managers with experience in other LDC's.

**F. Cut back as much as possible on feasibility and marketing studies.**  
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USAID should try to finance infrastructure studies from other sources. Some additional marketing/technical studies may be necessary (e.g. in Montserrat), particularly in connection with the PDAP field representatives' general advisory responsibility. But because of the primacy of the external investment promotion job, they should be kept to a minimum.

**G. Begin immediately a structured effort to institutionalize PDAP in the host countries.**  
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The circumstances vary from one country to another, and no pat formula is going to work in all. In some cases (e.g. Dominica), PDAP is already working inside an effective public investment promotion institution, and all that may be necessary is money for travel of the staff of the institution and for some equipment. In other cases, it may make sense to move from C&L offices into the offices of a public promotion institution. In still others, it may be preferable to work principally with private sector organizations and/or it may be desirable for PDAP advisors to hire national assistants.

**H. Linkages -- No Recommendations**  
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**I. PDAP and USAID should reflect on their information needs and redesign the PDAP reporting system to conform to the new focus. With the project approaching an extension cum modifications, an audit should be conducted.**  
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J. The C&L proposed budget revision should be laid aside,  
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 and a new financial plan should be developed to reflect the  
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 following key modifications:  
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1. Strengthening of the investment promotion function in the United States.
2. Extension of the field advisors through 1987.
3. Institutionalization.
4. Reduction of feasibility and marketing studies.
5. Shifting the Belize activity to independent financing.

K. Special Issues  
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1. Shift the Belize component of PDAP to independent  
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 management and financing through the AID office in  
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 Belize.  
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Keep the Belize advisor abreast of PDAP Eastern Caribbean developments by arranging his attendance at quarterly meetings of the PDAP country advisors.

2. Proceed with the pending studies for Montserrat.  
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 Try to persuade Montserrat leaders that, with the new  
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 emphasis on investment promotion, their interests can  
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 be well served by a part-time advisor.  
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Perhaps this would be easier to achieve if the PDAP coordinator took on this assignment in the sense that he could represent high-level attention to Montserrat's problems without direct affiliation with any single PDAP country.

3. Discuss the implications of investment promotion  
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for labor with labor leaders, governments, and  
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regional institutions. Provide technical assistance  
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to unions and governments as appropriate.  
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We believe that AID should assume direct responsibility for appropriate technical assistance to unions and governments, and that it should do so outside the PDAP program.

ATTACHMENT ISCOPE OF WORK

The purpose of the evaluation is to determine the extent to which PDAP is accomplishing its basic objectives and to set forth recommendations for such improvements as may be deemed necessary to assure the achievement of those objectives.

At the outset, the consultants' evaluation team will be expected to become conversant with all principal documents relating to the Project's concept, structure and implementation, including but not limited to a review of:-

- Project Development Assistance Project, No. 538-0042  
Project Paper
- AID Contract No. LAC-0042-C-00-1053-00 with Coopers and Lybrand, the subsequent amendment dated 7/19/82 and the PDAP Implementation Program dated 3/4/82.
- PDAP Country Action Plans.
- Project quarterly/semi-annual progress reports.
- CBI Implementation Plan: Eastern Caribbean dated 7/1/82.

The team will conduct their appraisal of the Project through discussions with AID and C&L Project personnel, representatives of participating governments and the private sector, local and regional institutions related to the Project and visits to the Project countries including C&L's Washington Office.

The evaluation will focus upon the following areas of inquiry:

A. Is PDAP meeting its fundamental project development and investment search objectives? Specifically, the consultants will assess:

1. With respect of project development:

(a) the number and type of projects which have been directly assisted into the identification, approval, funding and implementation stages;

(b) the degree to which the projects satisfy the planning requirements and selection criteria mandated with particular emphasis on the productive employment criterion.

2. With respect to investment search:

(a) the effectiveness of the investor search system in identifying active prospects for local investment;

(b) the number of investment prospects actually brought to the negotiation or approval stage;

(c) the appropriateness of the investment facilitated to the country's development priorities and circumstances.

Consistent with both of the above objectives, consultants will recommend measures which can be employed to determine Project performance with regard to its approach over the short-term.

B. Is the PDAP management structure functioning effeciently and are the operational procedures which have been established effective in accomplishing Project objectives. To this end, consultants will:

1. Examine the general administrative relationships between the contractor's Washington Office, field contract personnel, the Team Leader's office in Barbados and KDO/C.
2. Assess the performance of the management structure in terms of approval and monitoring of Project activities, maintaining cost control and, where relevant, supervising Project financed personnel.
3. Appraise the content and responsiveness of contractor's reporting and documentation to AID.
4. Assess the impact of reducing short-term technical inputs to increase investor search funds.
5. Evaluate the utility of the PDAP country's Action Plan in establishing the program content and framework of the Project and the process of AID review, modification and approval.
6. Determine the extent to which on-going linkages have been achieved with other donors, institutions and agencies in obtaining financing for Project activities.
7. Provide recommendations for improvement to any or all of the above.

C. Given the Project's objectives and within its current budget limitation, are there steps which could be taken to increase the impact and beneficiaries of PDAP?

The consultants should formulate a series of recommendations which would include, but not necessarily limited to:

- Utilization of short-term technical assistance resources.
- Investor search operations.
- Securing the trade and investment opportunities expected to result from the Caribbean basin Initiative.

## ATTACHMENT II

## INDUSTRIAL DEVELOPMENT STRATEGY

-----  
by Richard Bolin

"It is, I own, not uncommon to be wrong in theory, and right in practice; and we are happy that it is so" - Edmund Burke

In the sense that industrial development strategy is based on sound reasoning, and the implementation of that strategy relies on this reasoning to convince government and private leaders of the correctness of the strategy, we disagree with some of the Coopers & Lybrand reasoning. This has effects on both the way promotion is carried out, the selection of promotion targets, and the expectations created in the Eastern Caribbean and Belize as to the results from following the strategy. Yet, on the surface, the emerging strategy to promote foreign entrepreneurs to establish production sharing factories is essentially correct in our opinion.

We believe a clearer understanding between USAID and C&L about this reasoning and its implications is needed before going ahead with investment attraction as is now planned.

## A. Comments on Strategy

The PDAP Implementation Program Report of July 1982 rejects "comparative advantage" as the basis for job-creation in the LDC's because a "general" advantage cannot be found.

We believe it would be better to recognize that, indeed, the comparative advantage of low cost unskilled labor PLUS initiative PLUS availability of factory buildings is the way to differentiate an LDC not only from the advanced nations, but also from the other LDC's which haven't begun to seek industry yet.

The PDAP report next proposes that it is far more effective to see industrial development as a process of linkage. We think that the linkages idea doesn't work in most labor-intensive industries except over very long periods of time (10-20 years) and, even then, the effect is usually small in a truly backwards LDC. (Taiwan is usually given as the example by the linkage theorists -- it increased the local value added share of

exports from 8% to 32% in 8 years while increasing exports 15 times. The Taiwan case was unique -- strongly influenced by participation of experienced overseas Chinese with technical knowhow and money -- resources Eastern Caribbean countries and Belize cannot really expect to duplicate.)

To emphasize the point, the new \$30 million industrial Export Processing Zone in Karachi, Pakistan was built by the government in part on the basis it would create linkages. When it was found that it really couldn't do this over the short term, disillusionment in the public and private sectors began to hurt the EPZ's image. And Pakistan is a much more developed country than those in which PDAP is interested.

Finally, the PDAP report argues that a separate effort should be mounted to attract "enclave" industries to manufacture for the North America and Europe markets. We like this idea since linkages don't work and since we believe there is a strong "comparative advantage" in the low cost labor/initiative/factory buildings program.

Then the PDAP report says that "enclave" industries create a pool of skilled labor -- We submit that it takes at least 10 years to do this -- it is not done overnight -- and that only a few higher skills are usually created. Most of the skill transferred is at a lower level, especially to lower and middle management and to certain testing and repair service personnel.

The PDAP Implementation Program report implies that labor training programs (presumably run by government) should be simple for the industries to be attracted. In the first place, most companies prefer to do their own training. The array of skills taught depends on the product and the way the factory is designed. In El Salvador, while many workers at the Texas Instruments semiconductor assembly plant were trained by the company as simple assemblers, a few mechanics were trained for four years to achieve tolerances of one ten thousandths of an inch in machining certain surfaces. Sometimes government training schools which are very closely controlled by companies producing in the area can be helpful, but that is not the way most training programs are set up in the LDC's.

The PDAP report states that LDC's attract a high level of subcontractor operations. We would argue that while Asia may have many subcontractors in free trade areas like Taiwan, Hong Kong, and Singapore which have been operating for years, as yet

Mexico and the Caribbean Basin have very few subcontractors. It may constitute a diversion of PDAP investment search efforts if PDAP goes looking for subcontractors instead of multinational corporations. We believe that local manufacturers with considerable experience may have a chance to be trained as subcontractors, but there are so few existing firms in the Caribbean with provable manufacturing records as to make this idea more of a dream than a reality over the next decade or so.

Finally, PDAP emphasizes the manufacture of garments as a leading opportunity for the Eastern Caribbean and Belize. This emphasis is apparently based on 1) the existence of a few exporters in these industries in the region and 2) discussions with certain Hong Kong firms which want to achieve additional sales to the U.S. after their home country U.S. quotas are full. We believe garment manufacture should be de-emphasized by PDAP. There are four problems with the garment industry:

1. U.S. quotas will be imposed on CBI countries once garment production becomes significant because of the eternal vigilance of the U.S. garment companies and unions.

2. After quotas are imposed, growth will be limited to a maximum of 5% per year -- a very low target for PDAP.

3. CBI legislation specifically prohibits "textile and apparel articles which are subject to textile agreements" from obtaining duty-free treatment.

4. Garment jobs are very low grade jobs, paying low salaries and adding only a small amount of value per worker per year. In about three months, a person learns all there is to know about the job. Little opportunity is presented for upward mobility and growth in job stature in comparison with, say, the electronics industry.

This is not to say that the garment industry should be rejected -- only to put it in its proper place as a development tool. It is a good starter industry -- every island should have at least one plant. Beyond that, diversification into other industries should be the rule.

Among PDAP's other suggestions we have the following comments:

1. It may be difficult to attract furniture industries for export outside CARICOM -- although this industry needs low cost labor badly in the U.S, it has not been creative about going overseas.
2. The idea of obtaining fine chemicals from solar ponds won't create a lot of jobs and is too risky to merit the expenditure of development funds.
3. Energy has little relationship to new job creation in that most labor-intensive industries are relatively low users of electricity. This doesn't mean they can do without it, but it does mean that it is a small part of their cost, hence less important in a location decision. We would be inclined to limit expenditures for energy projects under PDAP.

## ATTACHMENT III

PRIVATE INDUSTRIAL PARKS  
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By Richard Bolin

One possibility for speeding the rate of job-creation in the Eastern Caribbean and Belize is to establish several privately-owned and operated industrial parks to cater especially to the needs of foreign production sharing industry attracted to the region.

The secret of success of the Mexican Border industrialization program of the Mexican Government was that after setting up a few simple rules to guide the "in-bond" or "twin-plant" industries, the government encouraged the private sector to create the infrastructure for development along the border with the U.S. A number of private industrial parks were created by entrepreneurs, in competition with each other, and the result was the creation of 100,000 new direct manufacturing jobs during the period 1965-74. Today over 80% of the 130,000 workers on the border are still employed in these private industrial parks.

The purpose of this paper is to state the case for private industrial parks as a new development tool in the Eastern Caribbean and Belize to help provide the 30,000-40,000 or more new manufacturing jobs needed in the next decade.

A. Weaknesses of the Present System  
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1. It takes up to 18 months to get a factory building.
2. Paperwork in the USAID/CDB/Development Corporation system is slow and cumbersome, and decisions are subject to outside considerations having nothing to do with getting factory buildings built.
3. Costs appear high and are increasing rapidly. The Dominica CDB buildings have risen in cost from US\$19 per square foot to \$29 in the past four years.
4. Lackadaisical rent collection has permitted one operator to use his factory rent-free for up to 3 years -- and then leave without paying. Other lessees have felt free to

deduct the cost of improvements they want to make from the rent, notifying the bank after the fact.

5. The CDB has given better terms to some Islands than to others. All PDAP locations lack suitable factory space and are losing clients because of this.

6. The system at present is a 100% government system with typical lack of efficiency which large organizations always bring -- especially large public organizations. The U.S. government has its rules, so does the CDB, so do the individual countries and their agencies. The various rules and systems have combined to stifle the rising industrial promotion successes by cutting off their principal attraction at the point of sale -- low cost available factory space. We doubt that it will be possible to change this, even after the task force we have recommended to consider the problem has met and made recommendations.

7. There has been no encouragement of the private sector in the various PDAP countries to enter into the business.

#### B. Possible Private Sector Solutions

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1. The local private sectors in each country are qualified to undertake the supplying of buildings, services, and infrastructure in well-run industrial parks.

2. They have some capital to contribute.

3. They are interested in participating in the shaping of the future economies of their countries.

4. Of all of the ideas presented to stimulate private sector development in an LDC, the private industrial park is one of the best because it is do-able. Most private sector LDC businessmen, accustomed to commerce, find it difficult to enter into manufacturing. But the talents required for a successful industrial park are already possessed locally.

5. The recent successes of PDAP in helping to re-invigorate private sector organizations on several islands demonstrates the capacity of the private sector to become

involved in development in its own interest, once shown the way to do this.

6. The way to involve the private sector is to encourage it to take equity in the process, so that those who take the risk will have an opportunity to gain from directly helping in the attraction and improvement of manufacturing industry.

7. Involvement of the private sector in this way will improve the success of the industrial promotion program on which USAID and PDAP are spending so much time and money. The reason has to do with the sense of commitment private industrial parks demonstrate to the client which is important to a favorable decision. This factor of commitment needs explaining.

### C. The Importance of Commitment in Industrial Promotion

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1. Commitment by the local private sector to an equity position in an industrial park means that the equity-holders stand to gain if the client decides to locate in their park -- and to lose if he doesn't.

2. The permanence of a private sector industrial park with demonstrable approval from government gives a sense of added stability to the client which government alone cannot.

3. This sense of commitment which no third party can give (banker, consultant, etc.) enhances the power of the industrial park at the time of closing the sale -- because it gives a better answer to the client's questions, "Who can help me in the future when things go wrong?" and "How do I know he will?".

4. The cost of industrial investment attraction is high. Private industrial parks must promote in their own interest and pay the cost out of the rent received. The fact that they have done this successfully elsewhere (Mexico and Central America) and kept their rents competitive with those of government-subsidized Export Processing Zones means that the private sector park is viable. Indeed, some privately-owned and operated industrial parks have been highly profitable, given enough time to pay off their debt for buildings, infrastructure, and promotion.

5. Private sector industrial parks will naturally compete with one another for business. This competition is to be encouraged as it tends to make the whole region more efficient. This competitive approach gives added confidence to the client concerning the commitment factor discussed above as well as in the sense that he is getting his factory at low competitive cost.

6. Under competitive conditions some private industrial parks have been known to cooperate from time to time in promoting their region on the outside, but this tends to be relatively rare. In this sense, continuation of the work of PDAP will be valuable.

7. Private sector influence on government to improve the ambience for industrial development will be enhanced by the existence of private industrial parks. This added element will give a sense of reality to government allocations of resources to industry. If the private industrial parks argue for a necessary improvement in infrastructure, they will do so out of a sense of need to solve real problems, rather than out of a study done by an outsider.

#### D. Approach

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1. There must be a transfer of knowhow on creating and operating private export industrial parks.

2. There should be a supply of seed capital and favorable loans for infrastructure, buildings, administration, and promotion. Perhaps USAID RDO/C or the USAID Private Investment Bureau or OPIC can be of help. Ideally, some plan which allows tapping world private sector financial resources could be worked out.

3. The first step is to prepare a workable plan which takes into account for each island and Belize the present factory space situation, the potential demand for space to meet job needs, the current levels of factory rent, the competitive situation in space rental, the cost to lease/purchase land for an industrial park, and the availability of suitable sites. A pre-feasibility study of each location should be made.

4. There needs to be a dialogue between the potential private sector investors in each country and the developers of successful private export industrial parks in other LDC's. After a workable plan has been made, perhaps this is the best place to begin.