PD-AAP-566

ISN: 35602

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: A (A = Add, C = Change, D = Delete) — Amendment Number: ____ — DOCUMENT CODE: 3

2. COUNTRY/ENTITY: Regional Development Office/Caribbean

3. PROJECT NUMBER: 538-0088

4. BUREAU/OFFICE: LAC — 05

5. PROJECT TITLE (maximum 40 characters): Infrastructure for Productive Investment

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM DD YY — 08 31 87

7. ESTIMATED DATE OF OBLIGATION (Under 'B.' below, enter 1, 2, 3, or 4)

A. Initial FY 84 — B. Quarter 4 — C. Final FY 84

8. COSTS ($000 OR EQUIVALENT $1 =)

A. FUNDING SOURCE	FIRST FY 84 B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant)	( )	( )	( )	( )	( )	( )
(Loan)	(12,000)	( )	(12,000)	(12,000)	( )	(12,000)
Other U.S. 1.						
Other U.S. 2.						
Host Country						
Other Donor(s)						
TOTALS	12,000		12,000	12,000		12,000

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	C. 2. Loan	D. OBLIGATIONS TO DATE 1. Grant	D. 2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	E. 2. Loan	F. LIFE OF PROJECT 1. Grant	F. 2. Loan
(1) W	710		840				12,000		12,000
(2)									
(3)									
(4)									
TOTALS							12,000		12,000

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each): 800 | 810 | 830

11. SECONDARY PURPOSE CODE: 733

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code	BUW						
B. Amount							

13. PROJECT PURPOSE (maximum 480 characters)

To provide physical infrastructure required for expanded private production which will result in increased employment.

14. SCHEDULED EVALUATIONS: Interim MM YY 03 87 | MM YY | Final MM YY

15. SOURCE/ORIGIN OF GOODS AND SERVICES: ☐ 000 ☒ 941 ☐ Local ☒ Other (Specify) 899:$3million

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a ____ page PP Amendment.)

17. APPROVED BY — Signature: William B. Wheeler — Title: Director, RDO/C — Date Signed: MM DD YY 08 10 84

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION: MM DD YY

AID 1330-4 (8-79)

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LIST OF ACRONYMS

ADL	Arthur D. Little, Inc.
AID	Agency for International Development
BIMAP	Barbados Institute of Management and Productivity
CAIC	Caribbean Association of Industry and Commerce
CARICOM	Caribbean Community Common Market
CBI	Caribbean Basin Initiative
CDB	Caribbean Development Bank
CFSC	Caribbean Financial Services Corporation
DFC	Development Finance Corporation
EC	Eastern Caribbean
EC$	Eastern Caribbean Dollar (approx. 37 US cents)
ECCB	Eastern Caribbean Central Bank
EIP	Employment Invesment Promotion
FZAS	Free Zone Authority Services, Inc.
GOSL	Government of St. Lucia
IDC	Industrial Development Corporation
IFC	International Association of Industry and Commerce
IPED	Investment Promotion and Export Development Project
IPIP	Infrastructure for Productive Investment Project
LDC	Less Developed Country
LOME II	An International Commodity Agreement between the European Economic Community and various LDCs, including the OECS states
OECS	Organization of Eastern Caribbean States
PDAP	Project Development Assistance Program
PID	Project Identification Document
PSD	Private Sector Division (of RDO/C)
PSC	Personal Services Contractor
RDO/C	Regional Development Office/Caribbean
USAID	AID Mission

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INFRASTRUCTURE FOR PRODUCTIVE INVESTMENT

PROJECT PAPER

I. SUMMARY AND RECOMMENDATIONS

A. Recommendations

The AID Regional Development Office/Caribbean (RDO/C) recommends authorization of a $12 million loan to the Eastern Caribbean Central Bank (ECCB) to finance the Infrastructure for Productive Investment Project (IPIP) as described herein. It is recommended that the loan have a repayment period of 25 years, including a five year grace period, with a 2% interest rate during the grace period and a 3% interest rate thereafter. The countries benefitting from the project will be the seven member states of the Organization of Eastern Caribbean States (OECS), Antigua, St. Kitts/Nevis, Dominica, St. Lucia, Grenada, St. Vincent and the Grenadines and Montserrat.

B. Negotiating Status

On August 3, 1984, the Board of Directors of the ECCB met and authorized the Governor of ECCB to request and negotiate the proposed loan. The request is attached as Annex A. All substantive terms and conditions have been agreed to by RDO/C and the ECCB.

C. Project Summary

With the enactment of the Caribbean Basin Initiative (CBI) the potential demand for factory space in the region for export-oriented industries has increased significantly. For the member states of the OECS to fully exploit the opportunities of the CBI, this increased demand for factory space must be satisfied as rapidly and as efficiently as possible. Given the many other existing demands on the Organization of East Caribbean States (OECS) governments, it is evident that a more active role should be assigned to the private sector to sponsor, finance, develop and operate industrial estates.

RDO/C has been providing resources in both investment promotion and public industrial estate construction through the Project Development Assistance Program (PDAP) and the Employment/Investment Promotion II Project (EIP II), respectively.

The PDAP Project, being implemented through an AID-direct contract with the firm of Coopers and Lybrand in association with Louis Berger International, has entered its third and final year. The investment promotion/investor search elements of that contract, as of March 31, 1984, assisted with the establishment of some 20 new manufacturing enterprises which are expected to employ by December 1985 over 7,000 people in the countries in which PDAP operates (St. Vincent, St. Lucia, Dominica, Grenada, St. Kitts/Nevis, Antigua, Montserrat and Belize). Partially as a result of this initial success, the lack of quickly available, suitable factory space has become a major impediment to establishment of additional private enterprises producing for the export market. Export manufacturing offers the major potential for expansion of employment opportunities for the region's growing labor force.

The EIP II loan/grant to the Caribbean Development Bank (CDB), which has been a principal source of financing for the Bank's Industrial Estates Program, is also entering its final year. EIP II assistance will have produced nearly 400,000 sq. ft. of factory space within the OECS, accommodating new and expanded business development which will provide permanent employment for an estimated 2,500 workers[1/]. The success of the Industrial Estates Program is significant, but limited implementation capabilities within the OECS governments, and bottlenecks in the program's systems of financing, reviews and approvals and construction have resulted in lead time of up to 18 months in the delivery of factory space.

To follow up and improve upon the above two terminating projects, RDO/C prepared two new projects for authorization in August 1984. The Investment Promotion and Export Development Project (IPED) is an $8.0 million grant project, to be authorized by RDO/C as the follow on to PDAP. The second project is the $12.0 million loan proposal contained herein, the objective of which is to finance privately owned industrial estates and individual factory shells, containing approximately 600,000 sq. ft. of factory space for use by predominantly export-oriented industrial firms.

The proposed IPIP project responds to the present demand for factory space, largely generated by PDAP, and the future demand to be generated by the IPED project. To avoid some of the problems identified with CDB Industrial Estates Program, IPIP will use the ECCB as a means to pass loan funds through commercial banks to finance strictly privately owned industrial estates. The IPED project will provide the needed technical assistance to the ECCB and to the private developers for the preparation of the subproject analyses that must be submitted to the commercial banks to support their loan applications.

The proposed Project is a critical element in the CBI Implementation Plan and Mission's private sector strategy. Within that strategy, other AID Projects are addressing a series of constraints

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1/ EIP II also financed the construction of approximately 115,000 sq. ft. in Jamaica, British Virgin Islands and other Eastern Caribbean countries which will not be eligible for funding under this Project.

facing the expansion of private sector investment, including financing (the Caribbean Financial Services Corporation), training and management development (Regional Development Training II), and public/private sector policy dialogue (Caribbean Association of Industry and Commerce and a proposed Public Policy Management Project).

D. Issues

Among the issues considered during the development of this project were those included in the PID Guidance cable (Annex C). These issues and others have been addressed as follows:

1. The Relationship of the Project to Other Investment Factors

This issue was more directly adressed to the grant-funded IPED project which was submitted jointly with this project at the PID stage. This project does, however, provide an direct means of encouraging improvements in the investment climate. While, all of the participating governments have expressed an interest in seeing private industrial estates developed in their countries, not all the countries are equally attractive to investors. The willingness of private developers to build factory space will serve as a clear signal to the various governments to indicate how each country's investment climate measures up to its neighbors.

In order to accommodate the private industrial estate project which RDO/C contractors have developed in St. Lucia, the GOSL has committed land and concessions which represent significant policy adjustment. The governments of Dominica, St. Kitts and Antigua are also reviewing their policies in light of interest expressed by local and foreign investors in IPIP participation.

The Mission feels that this project, particularly in conjunction with the IPED Project, will substantially influence public policies as they relate to foreign investment potential.

2. Rental Rates

RDO/C contracted analysis by Free Zone Authority Services, Inc. (FZAS) (See Financial Analysis Section and Annex G) has determined that private industrial estate feasibility in the region is dependent upon several factors, including a reduction of subsidization of rental rates for publicly provided floorspace. The private industrial estate which has been designed and prepared by FZAS for possible implementation under the Project in St. Lucia, is illustrative of the sensitivity of such private sector involvement to public sector rental structures. The feasibility of the St. Lucia sub-project, at 10% financing will require that the Government of St. Lucia (GOSL) raise the average rent that it charges for competing public industrial floorspace to US$2.50 (a 25% increase over current rents). The private developers are expected to be able to charge a premium rent of about $3.15 per sq. ft., which would produce an acceptable return on their investment. The GOSL has acknowledged and agreed in principal that private industrial estate development under the Project would require agreement that economic rental rates be charged for competing public space. (See Annex G). The feasibility of similar sub-projects in other countries will be enhanced (often determined) by increase public sector rents for competing factory space.

3. Implementation Arrangements

Both the bilateral and CDB options were rejected. The ECCB option that was selected will provide for quickest implementation possible, since the primary responsibility for loan processing and approval will be with the commercial banks.

4. Cost Recovery

Since the Project will not be financing public industrial estates, there is no longer the issue of borrowers intentionally not charging sufficient rent to cover financing, operational and maintenance costs in order to attract industrial tenants to the country. Unless a private developer can expect to charge profitable rents he will not develop.

With regard to the issue of not encouraging rental competition between the countries, RDO/C feels that the investment climate, rather than rental rates, should be the basis of competition in attracting investment. Because each of the private developers must be allowed to set their own rental rates depending upon profit calculations, the project cannot standardize rents. The Mission's strategy, however, is to standardize the cost of financing under the project, which, along with construction costs, is the major determinant of the minimum financially feasible rent. Construction costs will naturally vary depending upon the country, the site, the design and the extent to which the developer is able to obtain (as in the case of the St. Lucia sub-project) duty-free importation of construction materials.

5. Economic Analysis

The economic analysis does not consider the costs of promotion because the two components of the original project -- promotion and construction -- have been separated. RDO/C agrees with the guidance cable's statement that standard economic analysis is difficult, given the impossibility of forecasting what products will be turned out by firms occupying the shell space. Hence, we have considered several creative approaches and have settled on one that provides an estimate of unemployment-related benefits.

6. Grenada

The CDB is currently considering an application by Grenada's interim government for public industrial floorspace financing, and current PDAP efforts are being focussed on assisting the interim government to develop its Industrial Development Corporation (IDC) within which the GOG proposes to integrate most industrial development functions, including industrial estate program management and investment promotion. Grant financed assistance under the IPED project will continue these efforts.

Particular attention was given to Grenada by Free Zone Authority Services (FZAS) in their efforts to design a private industrial estate which could be financed by the Project. A report of the status of the FZAS efforts is contained in Annex G. FZAS has found that private industrial estate development in Grenada will be dependent on the resolution of several issues, including clarification of ownership of several potential sites that have been identified; basic infrastructural support (water, electricity); and finalization of the investment incentive legal structures. These factors, as well as, private sector caution, suggest that it is unlikely that initiation of a private industrial estate development, is likley in Grenada prior to the upcoming elections. USAID/Genada is, however, examining the possibility of including a factory shell component in the $6.0 million Infrastructure project to be which it plans to be submitted for AID/W authorization in September.

7. Belize

The choice of the ECCB as the implementing institution for the project basically rules out inclusion of Belize as a participating country. Belize is, however, included under the IPED project. Therefore, if demand for factory space in Belize becomes a serious constraint, and if other means are not found to satisfy the demand, an AID/Belize bilateral project may have to be considered.

8. Interest Rate Strategy

A fixed final interest rate of 10% on subloans was chosen for the project, based on sensitivity analysis for the proposed St. Lucia project, preliminary information on the St. Kitts project and a sounding of interested investors (see details in Financial Analysis). Earlier on in project development, the Mission was inclined toward an 8% rate at the outset, with adjustments depending on profit margins. This appraoch appeared the safer route in terms of ensuring demand. However, it had several disadvantages. It was less efficient in terms of discriminating between the more and less economic estate investments. It was more likely to support the tendency toward subsidized rents, and the consequent use of public factory shells by less efficient and less labor-intensive import substitution industries. It would seriously complicate the administration of the Project by requiring monitoring of the progress and record keeping of each borrower and lease contract renegotiation; and, if the end-borrower's rate was to be adjusted without affecting the margin of the commercial banks, the commercial banks would be more inclined to maximize transaction volumes and reduce cash flow pressures on borrowers (thereby reducing their own risk) by seeking interest rate reductions whenever possible.

Having established a greater, but not absolute, confidence that there is more than sufficient demand at a 10% interest rate, the Mission prefers to fix all lending at that rate, and only in the event that demand proves seriously weaker than expected, establish a new fixed interest rate one or two points lower. There is sufficient room in the proposed ECCB margin to do this, and the ECCB has agreed to take this step , in the unlikely event that it should be necessary.

E. Project Committee

1. Project Development Committee

- William J. Phelps, Private Sector Officer
- Peter Orr, Development Resources
- Charles Connolly, Private Sector Office
- Peter Medford, General Program Specialist
- Ivor Bennett, Economist
- Robin Phillips, Economist
- Olivia St. Hill, Document Production Manager
- Marguerite Walcott, Secretary

2. Project Review Committee

- William B. Wheeler, Mission Director
- Terrence J. Brown, Deputy Director
- Richard Warin, Controller
- Ted Carter, Regional Legal Advisor

II. BACKGROUND AND RATIONALE

A. Background

1. Economic Overview

The lesser developed countries (LDCs) of the Eastern Caribbean are accelerating their drive toward economic diversification which began during the 1970's. While the Region is still seriously dependent upon sugar and banana production, manufacturing, agro-industry and tourism are growing in importance to the small economies. The growth of the manufacturing sector has been particularly significant. In 1981, the sector's contribution to GDP exceeded 5 percent in all states (excluding Grenada) with the figure ranging as high as 14 percent (St. Vincent). In most states, the contribution of the manufacturing sector to GDP was higher in 1981 than in 1976, doubling in Antigua and St. Vincent. The sector is also having a significant impact on unemployment: 10,000 individuals, or about 7 percent of the employed labor force in 1980 worked in the sector. While the absolute numbers are not large, they are significant, and the manufacturing is providing a sizable portion of all new employment opportunities. The sector is also having a substantial positive effect on the islands' balance of payments. By 1981, the sector grossed almost $60 million in foreign exchange for the LDCs, treble the amount generated in 1976.

Despite measurable gains however, unemployment is increasing [1/]. Non-manufacturing sectors are generally experiencing slow (often no) growth; and much of the recent growth in the manufacturing sector has slowed due to the limited opportunities for import substitution production and market breakdowns within CARICOM upon which much of the sector has been dependent.

2. Growth Potential

Serious attempts are being made to restore some measure of stability to the domestic/CARICOM marketplace, however, all of the

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1/ At a time of decreasing migration due to tighter immigration controls in the United States, Canada, and the United Kingdom, annual unemployment averages in the region range up to 20% (over 30% in Grenada), with seasonal highs up to 50%. An estimated 34% of the active labor force is in seasonal employment (tourism, bananas, or sugar). Furthermore, the labor force in the region is growing faster than employment opportunities. St. Vincent, with an estimated 20-plus % unemployment rate, typifies this problem. If we assume St. Vincent's population growth rate remains at present levels, by the year 2000 a labor force of nearly 60,000 will lack about 12,000 jobs, unless the unemployment rate is reduced substantially.

LDCs are looking toward expansion of production for export as the primary basis for both short and long range growth.

The results of a 1984 study of the importance of export industries to the Eastern Caribbean economy support increased emphasis on production for export. Conducted by Arthur D. Little, (ADL) as part of a RDO/C funded evaluation of the Industrial Estates Program of the Caribbean Development Bank, the study confirms that export oriented industries producing for non-CARICOM markets, in addition to generating much needed foreign exchange, create significantly more employment than import substitution industries. The study also shows that export industries are more efficient users of industrial floorspace, provide better employee benefits and are able to support higher floorspace rental rates. (Annex H includes the complete ADL analysis of the importance of Export Oriented Industry). Each of these characteristics is of critical importance to the LDCs as they allocate scarce resources and manage their development strategies.

While there are many constraints to acceleration of production for export, it is generally agreed that strong growth potential exists. Among the strengths of the Region in this respect are the following:

. Production, particularly in the manufacturing sector, is generally in private hands;

. Relative political stability exists in most countries, and the governments are generally pro-private sector;

. Wage rates are reasonable, and the labor force is relatively productive; and

. All of the LDCs offer attractive incentives to foreign investors.

Also important to the growth potential of the Region is the favored access which is offered to producers for the U.S. marketplace under the Caribbean Basin Initiative (CBI).

Among the problems which will have to be addressed by the Region in order to realize its growth potential are: scarcity of appropriately structured financing; limited managerial resources; occasionally uncertain investment climate; economic infrastructural weaknesses and serious expert marketing constraints.

These problems have limited the ability of the productive sector to take better advantage of the Region's strengths and opportunities. They have frustrated efforts to fully enjoy opportunities for export development such as those offered by the LOME II agreement with the European Economic Community; and, if not addressed, they will also frustrate efforts to take full advantage of the CBI.

B. Mission Strategy

The Mission's strategy is articulated in the CDSS and the CBI Implementation Plan. Briefly stated, the strategy is to expand employment and increase output in the productive sectors. It is being carried out through a series of projects:

. A 1981 grant, increased in 1984 to $2 million, to the Caribbean Association of Industry and Commerce (CAIC) to develop regional and local private sector capacities for:

- influencing public policies by representing business interests before national governments and regional public bodies;
- providing technical assistance and training to local businesses; and
- promoting new business, including foreign investment and export market development;

. A 1981 three year, $6.6 million contract with the firm of Coopers and Lybrand under the Project Development Assistance Program (PDAP), developing industrial projects and locating investors. PDAP will be followed by a 1984 project entitled "Investment Promotion and Export Development" (IPED) which will continue the PDAP model of a contracted U.S. firm providing local project development cum international investor search, and also training and technical assistance to the local public and private entities involved in the investment process. IPED will promote more than 50 business startups or expansions to the point of initiation of production; these new or expanded businesses, directly and indirectly, will create over 15,000 jobs. IPED will also provide assistance necessary for the development of efficient investment promotion and investment management capabilities in each country.

. Three loans to the Caribbean Development Bank (CDB), one in 1970 for $1 million, another in 1973 for $1.2 million[1/] and an $8.4 million loan in 1979 for the Employment/Investment Promotion Project (EIP) have provided technical assistance to small businesses and financed the construction of over 500,000 sq.ft. of factory space throughout the region;

. Two grants (1978, 1979) totalling over $3 million to the CDB to finance technical assistance to businesses, technological

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1/ The amounts given for the 1970 and 1973 loans represent the portions of larger general development loans which were utilized by the CDB for industrial estate development.

information dissemination, small business development advisors, and national level investment promotion efforts;

. A grant (1983) to the Barbados Institute of Management and Productivity (BIMAP) of $1.4 million to provide organizational development, management training and intermediate enterprise assistance to the private sector of the Eastern Caribbean;

. Support for the multilateral Caribbean Project Development Facility which, under the auspices of the World Bank International Finance Corporation (IFC) identifies and seeks investments ranging from $500,000 to $5 million in Caribbean based projects;

. Bilateral infrastructure projects, including: Antigua Water Supply ($9.7 million); Dominica Road Rehabilitation ($9.6 million); Productive Infrastructure Rehabilitation (road systems) for St. Lucia and St. Vincent ($11.6 million); and a Hydroelectric project for St. Vincent ($7 million); and

. The newly founded Caribbean Financial Services Corporation, a private bank which has combined AID loan funds of $12 million with local and international equity capital exceeding $2 million to create a private sector development lending and equity participation program through the Eastern Caribbean. The CFSC was considered as a possible channel for this industrial estate financing, but is clearly at too early a stage in its own development as a project financier to assume responsibility for a regional program such as this. The CFSC may, however, provide production financing for businesses leasing space in the new industrial estates.

These initiatives have facilitated:

- growing regional and LDC private sector organizational strength;
- an institutional network for the financing of industrial infrastructure;
- private and public sector technical and business assistance services;
- professional investment promotion;
- emerging LDC industrial development authorities; and
- private development finance resources.

Each of these initiatives is important to Regional development, and is being supported on a continuing basis within the RDO/C portfolio. Two of the initiatives, PDAP and the CDB infrastructure project, are particularly important to employment creation through private production: the financing of industrial floorspace, and the development of new productive investments. The PDAP project will terminate in three months, and all of the resources under the CDB project have been fully committed. IPED and IPIP will continue the employment and production thrusts of these projects, introducing modifications to increase their impact.

C. Rationale

1. Project Background

Unlike many developing areas, the Eastern Caribbean LDCs are private enterprise oriented. AID's efforts in the Region have been building upon this orientation by assisting the countries to achieve equitable growth through private production.

Two AID-funded development initiatives have made particularly significant progress toward strengthening the infrastructure - both physical and institutional - required for the attraction and management of the private investment required to fuel increased production.

The Project Development Assistance Program (PDAP) operation has demonstrated considerable success in identifying and nurturing investment opportunities. PDAP has substantially improved the quality of investment promotion throughout the region and, perhaps more importantly, enabled the public and private sectors to better understand the conditions which are required for successful investment attraction.

The Employment/Investment Promotion Program, funded in two phases (EIP and EIP II) by AID grants and loans, has inter alia financed the construction of 400,000 sq. ft. of factory space in the OECS States, providing the physical infrastructure for numerous foreign and domestic investments.

a. Results of PDAP To Date

Now in its final months of funding, PDAP was initiated at the end of 1981 to "assist the governments and private sector of the Eastern Caribbean to identify, design and implement development projects which promote employment". PDAP Resident Advisors have been working directly with the public and private sectors of each of the LDCs[1/], and a U.S.-based "investor search" operation has been promoting foreign investment in the region.

1/ The LDCs in which Resident Advisors are located are St. Christopher/Nevis, Antigua, St. Lucia, Dominica, St. Vincent, Grenada and Belize. (The PDAP team leader is based in Barbados, however little direct assistance is provided that country).

Providing guidance and project financed technical assistance, the Resident Advisors have contributed significantly to the development of specific productive projects as well as assisting the LDCs to better identify and utilize local and outside technical and financial resources for productive purposes.

While each Advisor has a slightly different role, PDAP operations have become essential to the investment promotion and management eforts of each of the countries. In Dominica, for example, the PDAP Advisor works within the structure of the Industrial Development Corporation, providing direct technical advice and staff support. The Advisor to Antigua, while attached directly to the Office of the Deputy Prime Minister, is housed within the offices of the Chamber of Commerce and works closely with the Chamber and the Manufacturers' Association. In all cases, the Resident Advisors, in conjunction with the PDAP investor search operation, have been instrumental in attracting private investment and in assisting the public and private sectors to better develop and manage investment opportunity.

The original focus of the PDAP effort was changed through the course of project implementation in response to changing circumstances, including passage of CBI legislation, and as a result of a growing understanding of the means by which the projects purpose could best be served. The measurable "outputs" which were originally expected of PDAP included:

- five major development projects in each country (two in Montserrat) totalling $30 million and generating at least 3,000 jobs; and

- six sector or policy studies, the results of which in use by regional and/or national entities.

Most of the results were expected to occur via assistance to the public sectors of the LDCs, PDAP was expected to assist the governments to prepare "productive" projects for funding by international organizations or financing by private sources. Investment promotion, per se, was not envisaged as the major thrust of the Project, and the investor search operation was expected to represent a relatively minor (36 person months) activity.

In August, 1983, after twenty months of PDAP operation, the Mission contracted the services of an outside consultant team[1/] to evaluate project progress. The evaluators found that the Mission and the contractor had appropriately placed increased emphasis on the investment promotion aspect of the Project and enhanced its private sector orientation. The evaluators' findings include the following:

1/ Richard L. Bolin and Robert C. Haywood of International Parks, Inc., and Larwence E. Harrison.

. PDAP had facilitated the development of thirteen new business enterprises which, upon full operation, would employ 1,986 persons (226 persons had been employed to date);

. Ten public and private sector feasibility and marketing studies had been completed; and

. Fourteen specific marketing studies had been completed.

The evaluators observed that the PDAP approach was a promising approach to investment which was well adapted to the needs of the Region. The evaluators also felt that, while alternative approaches to accomplishing PDAP objectives were "theoretically possible", there did not appear to be any realistically viable alternative to a team of resident advisors working with an international promotion network.

The evaluators also felt that the 3,000 job target was insufficiently ambitious given the extreme unemployment problems of the Region. Further emphasis on investor promotion was recommended, and several suggestions were made regarding the approach to the promotion function.

Since the August 1983 evaluation, further PDAP emphasis has been placed on investment promotion and the investor search operation has been substantially enhanced. Budget resources which were originally assigned to support studies and analytical work were shifted to accommodate the modified project focus.

Table II-1 provides a statistical overview of PDAP investment related activity and results as of May 1984. Twenty successfully negotiated investments will employ 4,185 workers during 1984 with plans to expand operations which will employ an additional 3,236 workers during 1985. Additional full and part-time employment has been generated as a result of "production sharing" or subcontractual arrangements which have been PDAP facilitated, and numerous cottage industry operations have been spawned as "feeders" to new and expanded manufacturing.

Simple cost-benefit analysis would indicate that the cost per job created as a result of PDAP assistance (based exclusively on the cost of PDAP operations) is $1,362.00 based on the immediate commitments of investors, and $768.00 based on investors' plans by December, 1985. Similar analysis of other international investment promotion programs would rate PDAP comparatively beneficial. (The Irish Industrial Development Authority expends approximately $5,000 per job created; Puerto Rico's Fomento: approximately $3,500; and the Jamaica Investment Corporation Ltd: approximately $3,000).

TABLE II-1

PDAP Summary As of 5/31/84

I. PDAP Facilitated Investments Resulting in New and Expanded Current and Planned Productive Projects

Country	Project	Employment Impact[1/] Initial Employment Commitment	Planned By Dec. 85	Jobs Maintained	Total
Antigua	. Stone Quarry	10	6	-	16
	. Computer Products	250	-	-	250
	. Textiles & Garments	1,000	500	-	1,500
	. Electonics (Sub-contract)	-	-	20	20
Belize	. Household Chemicals	10	-	-	10
	. Lobster Trap Assbly	50	50	-	100
	. Crabmeat Prod.	15	200	-	215
	. Melon Prod. (Subcontract)	-		25	25
Dominica	. Aloe Processing	90	-	-	90
	. Childrens Dresses[2/]	250	60	-	310
	. Cardboard Containers	50	-	-	50
	. Sporting Goods Manufacturing	200	-	-	200
St. Kitts	. Electronics Assbly	700	650	-	1,350
	. Shrimp Farming	20	-	-	20
	. Cut Flowers	60	-	-	60
	. Garment Manufacturing (Sub-contract)	-	-	85	85
	. Electronics Assbl (Sub-contract)	-		15	15
St. Lucia	. Plastic Products	250	100	-	350
	. Textiles	500	1,500	-	2,000
St. Vincent	. Sports Equipment Assbly.	400	-	-	400
	. Electronics Assbly.	150	100	-	250
	. Electronics Assbly.	150	-	-	150
Grenada	(Activity began February 1984)	-	-	-	-
	. Garment Production	30	70	-	100
	. Garment Production	-	-	205	205
Total		4,185	3,236	350	7,771

II. Summary of Company Contacts

. Total Contacts	5,086
. Contacts Expressing Further Interest	3,580
. Contacts Receiving Advanced Follow-up	1,120
. Hot Prospects	51

III. Other Activity

. Trade Shows	26
. DOC Seminar	15
. Mass Mailings	18
. Articles/Ads	21

1/ Employment figures are based on data contained in the formal application submitted by company. Information on probable expansion is provided by the company.

2/ In addition to the full-time employment shown, an additional 1,200 part-time jobs are being created in cottage industry.

Consistent with their contracted responsibilities, PDAP Resident Advisors have also made numerous other contributions to the development efforts of their host governments which are not necessarily directly measurable in terms of immediate employment creation. For example, one Advisor, because of his particular expertise, has provided extensive assistance to RDO/C and the Government of Dominica with the restructuring of the Dominica banana industry. The Advisor to St. Lucia and a PDAP subcontracted consultant are assisting the Government to develop the systems and procedures necessary to operate a planned industrial Free Zone on the island. Other examples include technical assistance to St. Vincent with feasibility studies for an airport and a new jetty; and assistance to the Belize Chamber of Commerce process of "twinning" with a U.S. Chamber.

b. Results To Date of EIP II

Since the early-1970's, the public sector industrial development institutions of the Eastern Caribbean have been constructing industrial infrastructure - defined as developed fully-serviced land and factory buildings - for small to medium-scale light industrial enterprises. Projects have included individual factory buildings, estates with factory units available for rent, and in one or two cases, land on a long-term lease for owner-financed buildings. Long-term credit has been provided by the Caribbean Development Bank (CDB), with funds provided by AID and IBRD, through its Industrial Estates Program.

The Program was first conceived as a means of stimulating growth and efficiency in the indigenous small and medium industry sector, thereby generating increased employment and increased income for workers and small businessmen. In the mid-1970's it became apparent that industrial estates could also function effectively to attract foreign investors seeking off-shore bases for assembly and manufacture of finished products for export. The role of industrial estates is currently viewed as important not only to the economic and social objectives of sectoral growth, employment generation, and rising income, but also to mitigating the region's chronic foreign exchange shortages. The Industrial Estate Program also encourages rational land management, technology transfer, and vocational and managerial skills upgrading.

Since 1972, the CDB has approved US$20.7 million in Industrial Estate Program loans to all of its member countries, approximately one-half of which have been for the English-speaking LDC's. The AID-funded EIP II Project has provided $4,854,000 since 1979 which represents approximately 50% of all Industrial Estates Program lending in Dominica, St. Lucia, St. Christopher/Nevis, St. Vincent and the Grenadines, Monsterrat, Belize and the British Virgin Islands. (Antigua and Grenada borrowed no EIP II funds). While all of the EIP II funds were committed by December 31, 1983, procedural delays and managerial problems have resulted in slow disbursements (Table II-2).

TABLE II-2

EIP II INDUSTRIAL ESTATES FUNDING
AS OF DECEMBER 1983
(US$000)

COUNTRY	AMOUNT APPROVED	AMOUNT DISBURSED
Antigua	None	-
Dominica	1,233	458
Grenada	None	-
St. Christopher/Nevis	51	5
St. Lucia	1,015	1,004
St. Vincent	1,389	973
Belize	545	201
Montserrat	156	139
Other Countries(including British Virgin Islands and Jamaica	465	-0-
Total	4,854	2,780

An evaluation of EIP II activity in six countries was conducted in January and February, 1984 by Arthur D. Little (ADL), Inc, under AID-financed contract to the CDB. The evaluators were unable to completely separate the impact of AID-EIP II resources from that of the broader CDB Industrial Estate Program1/. Tables II-3 and II-4 display the results of the overall program in the five ADL study countries in terms of investment attracted, factory space constructed and employment generated 2/. Since 1972, nearly 700,000 sq. ft of factory space (63% of which is attributable to AID funding) has been provided to sixty companies which have invested an estimated EC$44.5 million (approx. US$17.0 million) and employed over 4,300 persons. While no estimates are available of the foreign exchange earnings of these companies, the tenants producing for export (outside CARICOM) are responsible for nearly 78% of the jobs created.

Since the only quantifiable targets established at the outset of the EIP II program were the creation of 1,850 permanent jobs and the stimulation of $14 million in investment in industry by 1983, it is reasonable to conclude that the project has substantially achieved its objectives.

2. Demand for Industrial Space

Current levels of financing for the development of industrial floorspace cannot satisfy current and projected demand, particularly for businesses based on foreign investment.

The inability of LDC industrial development authorities to accurately predict levels and types of industrial investment and the related demand for industrial infrastructure has been cited by AID contracted analysts as one of the most serious planning deficiencies

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1/ The evaluation was further complicated by the fact that lending for industrial estates development was only one of three EIP II program components which also included sub-lending and technical assistance for small and medium sized businesses.

2/ The displays do not include Grenada, which received no financing under EIP II. Belize and Montserrat which were not included in the ADL evaluation, have received CDB approval for EIP II financing which is intended to construct an estimated 33,000 sq. ft. of industrial floorspace.

TABLE II-3

RESULTS OF THE FACTORY BUILDING PROGRAM IN STUDY COUNTRIES BY PRINCIPAL MARKET

	NUMBER OF COMPANIES [1]			INVESTMENT [2] (EC$ 000)		
COUNTRY	Local & CARICOM	Foreign	Joint Venture	Local & CARICOM	Foreign	Joint Venture
Antigua	11	2	1	15,300	4,000	N.A.
Dominica	3	–	–	900	0	0
St. Kitts	5	5	3	1,600	3,100	1,600
St. Lucia	8	8 [3]	–	7,000	5,200	0
St. Vincent	9	5	–	3,500	2,250	–
TOTALS	36	20	4	28,300	14,550	1,600

1 Includes only tenants of CDB financed buildings.

2 Rough estimates based on information provided by selected companies and applied to similar companies. Exclude investment in factory buildings.

3 Includes two firms which are leaving. - (Warehousing and Flavors)

Note: Grenada is not included since it does not have an active industrial estates program.

TABLE II-4

RESULTS OF THE CDB INDUSTRIAL ESTATES PROGRAM
STUDY COUNTRIES BY PRINCIPAL MARKET

COUNTRY	EXPORT ORIENTED INDUSTRIES			LOCAL/REGIONAL MARKET ORIENTED INDUSTRIES		
	Space (Sq. Ft.)	Employment (Emp.)	Space/Empl. (Sq. Ft./Emp.)	Space (Sq. Ft.)	Employment (Emp.)	Space/Empl. (Sq. Ft./Emp.)
Antigua	81,500	540	150	135,740	242	560
Dominica				26,000	94	275
St. Kitts	110,500	1,549	75	67,000	296	225
St. Lucia	98,260	885	110	26,500	180	145
St. Vincent	61,000	422	145	55,000	138	400
TOTALS	351,260	3,396	105	310,240	950	325

of the current system[1/]. Notwithstanding these limitations, demand analysis through 1986 has been conducted by RDO/C contractors which employs the projections of government officials, the

stated plans of private businesses and the estimates of the PDAP resident advisors. Demand projections for 1984 are based on firm investment expectations of PDAP advisors and LDC officials. 1985 and 1986 estimates are, of course, less certain.

Immediate demand is estimated at over 450,000 sq. ft. and the demand for each of calendar years 1985 and 1986 is estimated at over 400,000 sq. ft. According to this analysis, new resources must be generated during the next three years to develop over one million sq. ft. of new industrial floorspace - more than double the space that has been developed during the past five years. The latest CDB plans are to finance an estimated 190,000 sq. ft. in 1984 and 140,000 in 1985. Assuming that the CDB is able to continue financing publicly developed floorspace at its current pace into 1986, a deficit of over 600,000 sq. ft. can be expected by the end of 1986.

PDAP advisors report numerous lost investment opportunities during the last 2 years because of the lack of immediately available, suitable space. The size, state of repair, and locations of some currently available factory shells cannot satisfactorily accommodate new or expanding industry; the region is even at risk of losing several current industrial operations because of unsatisfactory factory space. Related infrastructure is also frequently inadequate. Unreliable electrical power, water, and waste disposal, as well as poor access roads limit the types and sizes of industries that could move into many sites; especially inhibiting larger, usually foreign financed operations.

Additionally, in the recent evaluation of industrial estates programming in the region, ADL consultants found that foreign investors consistently cite the availability of adequate factory space and supportive infrastructure as a major consideration in their location decisions. Alternatively, the lack of promptly available space was cited as the major constraint to additional foreign investment.

1/ Demand projections based on foreign investment are particularly difficult because the region has developed an international reputation for being unable to provide adequate industrial floorspace. Given the importance of adequate facilities as a consideration of potential investors, this reputation has frustrated investment promotion efforts. If the region is able to successfully demonstrate an ability to satisfy demand, such a demonstration, along with the stimulus of the CBI, could dramatically influence demand for new floorspace, thereby outdating all current projections.

3. Problems Identified

The A.D. Little evaluation of the CDB Industrial Estates Program identified a number of problems with the CDB program, and, more generally, with publicly-operated industrial estates in the region.

a. Limited Capabilities of OECS Governments

The ADL consultants have assessed the institutional/managerial strengths and weaknesses of Antigua, Dominica, Grenada, St. Kitts/Nevis, St. Lucia and St. Vincent with regard to investment promotion and industrial estate management. These analyses (included in Annex F), indicate that the quality of management and levels of institutional sophistication vary significantly throughout the region. Most of the countries, however, have several problems in common, including the following:

(i) Poor Planning and Lack of Functional Coordination

Poor planning and coordination among the various agencies which share industrial development related functions keep the countries from more accurately coordinating these efforts consistent with industrial development priorities, i.e. production for export and employment generation. All of the participating countries, for example, have established employment generation as their highest industrial development priority. However, factory space built under the current CDB industrial estates program has generally been leased on a first come-first served basis without regards to the employment generation plans of the lessor. (Only St. Lucia seems to be applying screening criteria.) This practice has persisted in spite of the fact that extra-CARICOM export oriented firms generate significantly higher levels of employment (in absolute terms and in relation to program costs and the factory space utilized) than industries oriented towards the local and regional markets1/.

The industrial estates program, and the availability of factory space, has proven to be of major importance in the promotion of foreign investment in export industries, particularly in St. Lucia and St. Kitts. However, the letting of available space in the other countries for small import substitution industries (47% of all Industrial Estates Program tennants produce for the local/CARICOM market), has limited the effectiveness of investment promotion efforts.

1/ The relative importance of export oriented industrial development to the economies of the LDCs has been examined by ADL in its evaluation of the Industrial Estates Program. A report of the ADL findings is attached as Annex H.

The Development Finance Corporations (DFCs), which are the executing agencies for the Industrial Estates Program in all the islands except St. Lucia have at best a limited role in the planning of the industrial estates, and almost no involvement with investment promotion. Furthermore, the small and medium sized companies, which represent the principal clientele of the DFCs, typically require policies and conditions which are incompatible with export oriented industrialization. Smaller local market oriented companies require: financed factory space designed to meet their particular needs (often inappropriate for export oriented industries); use of available space (limiting the effectiveness of the investment promotion efforts); and, subsidized rental rates. (Since many of the local companies oriented towards the local and regional markets have large amounts of factory space in relation to output and employment, these companies tend to be more sensitive to rents than export oriented companies).

In most of the countries, the planning of the industrial estates has also been relatively inadequate; often carried out by the Central Planning Unit or the Ministry of Trade and Industry with only limited inputs by either the executing agency for industrial estates programming or investment promoters. (Again, St. Lucia is the major exception.) This, combined with the tendency to not plan the industrial estates as an integral component of an export oriented industrial development strategy, has led to a number of problems. For example, most of the governments have been choosing sites for industrial estates on the basis of political/social considerations rather than an assessment of the most appropriate location for an industrial estate for export oriented industries.

(ii) Insufficient Management

Many of the problems that have occurred with the implemenation of the industrial estates program can be attributed, in part, to insufficient management attention at the country level. ADL consultants found that "....few of the DFCs have assigned project managers, with the appropriate training and experience, to be responsible for project implementaton." CDB officials insist that, while CDB (and AID) procedures account for much of the delay associated with floorspace financing, most of the inordinate delays which have occurred have been the result of poor analysis, improper loan application preparation and lack of follow-through by the DFCs. The total process has taken up to 18-24 months, although one recent building was reportedly finished in 6 months, including only 3 months for construction.

Other problems which prevail throughout the region as a direct result of inadequate management are: inadequate building maintenance; poor rent collection (there are frequent examples of tenants who have not paid rent for several months - even years); and poor tenant relations.

(iii) Subsidization of Industrial Floorspace Rent

In spite of CDB policies to the contrary, rent subsidization has persisted throughout the region. Of the five countries with active industrial estate programs studied by ADL consultants, only St. Kitts (and there only within the last year) seems to be charging what the CDB calls "economic rents" (sufficient to cover all costs associated with the loan and facility maintenance). The other countries seem to fear the impact of higher rents on their investment promotion efforts or have simply been trapped with unfavorable leases which cannot be renegotiated.

Rents among the LDCs range from US$1.50 to $2.20/sq. ft./year for under-roof factory space. With construction costs which are currently being paid by LDC public sectors for typical factory buildings ranging between US$25-30/sq. ft., the minimum rental to assure capital recovery - after administration, debt service, maintenance, and other miscellaneous operating costs is estimated to average US$2.50/sq. ft.

Continued subsidization of rents would rule out any possibility for the countries to achieve internally generated surplusses which could then be reinvested in further expansion. All new construction must be financed by additional equity and long-term finance, which in turn generate larger deficits. Further complicating the picture, the lack of adequate cash-flow hampers management in trying to build a competent operational staff, attend to maintenance of estate assets and allocate funds to promotion and other necessary expenditures.

(iv) Poor Indigeneous Investment Promotion and Management

All of the LDCs are heavily dependent on PDAP services for the development of investment strategies, investment promotion and investment opportunity management. While PDAP has proved to be a valuable and reliable resource, few of the countries have developed significant indigeneous investment promotion and management skills in either the public or the private sectors. Improved indigeneous capacities to assume greater responsibility for these functions will be necessary if the countries are to take full advantage of CBI related and other industrial (and tourism) development opportunities.

b. CDB Industrial Estate Program

In addition to insufficient financing, the development of industrial infrastructure is also handicapped by cumbersome management procedure:

(i) Current Industrial Estate Program procedures are a factor in the frequent inordinate delays in the delivery of completed factory space. The preparation, presentation, and CDB approval of LDC requests for industrial floorspace financing; the tender and award process required for materials procurement and construction contracting; and the actual construction average a total "turn-around" time exceeding 18 months.

(ii) The present requirements for "firm demand" and "one building in advance" are too restrictive. Once a line of credit is established for the construction of factory space, each specific construction project must be approved by the CDB. Generally, the CDB will allow the construction of a limited inventory of factory space (usually "one building in advance") for which there is no firm commitment by a potential investor. Otherwise, documentation must be provided to show that investors are committed to lease the proposed factory space (referred to as "firm demand"). The intent of these policies is to oblige the governments to relate the construction of industrial floorspace to reasonable projections of demand, thereby reducing incidence of overbuilding and the resultant inability of the governments to service their debt. The effect of the policies, in many cases, has been to handicap investment promotion efforts and lost investment opportunities due to the unavailability of ready factory space.

4. Alternative Approaches

RDO/C considered the following alternatives in developing the Project.

a. Private vs. Public Industrial Estates

Analysis of industrial estate operations both here in the Eastern Caribbean region and elsewhere in the world indicates that the following advantages may be achieved by encouraging private industrial estates:

(i) Private equity investment replaces scarce public resources;

(ii) Private sector developers generally experience lower construction costs than public institutions1/;

(iii) Private developers can generally achieve more rapid construction, a critical factor in attracting industrialists, particularly foreign investors, who are unable to wait inordinate periods for available factory space; and

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1/ RDO/C analysis indicates that the costs of construction of industrial structures in the Eastern Caribbean are generally 30% higher in the public sector.

(iv) The profit motive leads private industrial estate developers to ensure maintenance and operation satisfactory to renters and to use their own resources to finance industrial promotion efforts that will attract investment to the country and ensure full occupancy of factory shells.

Nonetheless, there is a tradition of public industrial estates in the region, and to an extent certain institutional and political commitments in this direction. Private industrial estates do not exist in the OECS countries and are therefore a proposition that is untested locally. The analysis to date indicates that private estates are feasible and that there is sufficient demand to use the entire $12.0 million for private developments. What cannot be demonstrated at this point is that necessary ingredients will come together in all seven of the OECs countries.

RDO/C consequently considered two alternatives. The first was lending 50% of the funds for public and 50% for private estates. The second was to provide 100% for private developments. The two alternatives had implications for the IPED companion grant project as well. Under the first alternative considerable assistance would have to be provided to the DFCs and/or IDCs in each country. Under the second alternative this function would be reduced, but not eliminated, since proper operation of the existing public industrial estates and additional space added without AID financing would still be important in achieving overall investment promotion objectives.

RDO/C opted for the second alternative, partly as an outcome of the decision regarding the institutional arrangements for the Project.

b. Institutional Arrangement

Three institutional/implementation alternatives were considered:

(i) Bilateral Approach - To avoid problems with CDB procedures and, hopefully, speed up implementation, RDO/C considered signing separate loan agreements with the different OECS countries. This alternative would allow for either private or public estates.

This alternative was not considered feasible due to the administrative difficulty for A.I.D. and the fact that it is not possible, prior to the commence of the project, to accurately estimate demand in each country. Bilateral agreements would require an *a priori* allocation of funds per country which could not be subsequently adjusted in accordance with realized demand.

(ii) CDB Option - RDO/C discussed with the CDB a proposal for a 50/50 private/public project. The CDB has the advantage of the experience with the financing of public industrial estates and has the in-house technical capability to implement the Project. Although the CDB does do some term lending at market rates for private sector investments, it appeared that the basic point of departure for the new project would be the public industrial estate program experience. The orientation, policies and procedures which have developed over time for this program are not ideal, as described previously, and would be even less suitable for financing private industrial estates. Also, the CDB was reluctant to reserve at least 50% of the funds for the private sector. This was considered by RDO/C to be a potential problem, because without such a reservation the public and private sectors would be competing for the same resources. Because private developers must obtain various government approvals to proceed, private developers could be at an unfair disadvantage in obotaining project resources.

(iii) The ECCB Option - The selected alternative was to use the ECCB as the implementing institution. The EECB option has the following advantages.

- In terms of repayment of the A.I.D. loan, the ECCB, as the central bank for all the OECS countries is a better risk than any of the individual countries.

- Administratively, the Project would be simplified, as bilateral agreements would not be needed, cumbersome CDB procedures would be avoided and the more streamlined operational procedures used between the ECCB and commercial banks would serve as the basis for the modus operandi of the Project.

- Use of commercial banks as the intermediate lender is likely to be the most attractive option for private investors, considering the frequent problems investors encounter with direct borrowing from DFCs or similar public institutions.

- Individual industrial estate subproject feasibility would be determined as a function of the private business relationship between the commercial banker and the private borrower, greatly reducing the need for technical project development oversight by the public sector.

- The ECCB and the commercial banking network would gain valuable exposure to term lending in the private sector.

III. PROJECT DESCRIPTION

A. Goal and Purpose

The goal of the Project is to increase private, productive employment in the Region. The purpose is to provide physical infrastructure required for expanded private production which would result in increased employment.

B. Expected Achievements

Targeting industries which are efficient generators of employment and earners of foreign currency, the Project will provide loan financing for over 600,000 square feet of privately developed and operated industrial floorspace and supportive infrastructure for new industrial activity which will employ at least 4,000 persons and generate a minimum of $200 million in additional gross export sales from the region.

In addition, the Project will also facilitate the introduction of private industrial estate development and management to the region which is expected to significantly enhance the attractiveness of the Eastern Caribbean as an investment host as well as relieve the public sector of a substantial portion of its responsibility for providing industrial floorspace.

C. Detailed Project Description

1. Overview

The project will provide US$12 million in A.I.D. loan funds to the ECCB for lending through public and private commercial banks in the OECS countries[1/] to private developers of industrial estates, and individual factory shells which will house primarily export-oriented procedures and manufacturers.

By introducing long-term loan capital, in conjunction with IPED provided technical assistance, at key points in the existing banking system, the project will build upon the already well established financial networks of the Region to include long-term credit for the development by regional and foreign private investors of much needed industrial infrastructure.

The ECCB, formerly the Eastern Caribbean Currency Authority is well established as regulator of the E.C. curency and a point of foreign currency transaction coordination. It has an efficient

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1/ Antigua-Barbuda, St. Christopher/Nevis, Montserrat, Dominica, St. Lucia, St. Vincent and the Grenadines and Grenada.

working relationship with the private and public commercial banks in each of the OECS countries through which it has operated since 1965, and currently operates lines of credit for export financing. The ECCB has had no experience, however, with term lending and no exposure to industrial estate development. In order to enable the ECCB to extend its current reach to include such operations, IPIP will provide long-term financing in conjunction with technical personnel which will be contracted by RDO/C under the IPED project and the Mission's Project Development and Support budget.

The commercial banking network in the OECS countries is also well established. (Section IV, Institutional Analysis and Annex I contain detailed descriptions of the commercial banks). The credit operations of most of the area banks consist primarily of short and medium term lendings for commercial trade and production. Long-term credit (over ten years) is traditionally not offered, reflecting the historically trade-oriented nature of the Eastern Caribbean and the policies of the banks. Interest has been expressed by many of the banks[1/] however, in participation with IPIP, which will expand their already well established relationships with the private sector to include long-term lending for industrial estate development. Through the services of the resident advisors which operate in each of the OECS countries through the RDO/C financed IPED project, participating banks and their industrial estate developer customers will be availed of technical assistance as necessary to develop, assess and process industrial estate proposals.

Private industrial estates are virtually unknown in the Region. While over 400,000 square feet of factory space is privately owned in the OECS countries, nearly all of the space has been developed for use by the industrialist owners themselves. Given the recent acceleration of demand for industrial floorspace however, much interest is currently being expressed by Caribbean and foreign investors in the development of industrial estates which would lease and/or sell floorspace and other facilities to industrialists. RDO/C financed analysis of the feasibility of private industrial estate development and operation has indicated strong potential throughout the Region. Further RDO/C contracted efforts have developed a specific private industrial estate development proposal in St. Lucia which will require approximately $3.4 million in financing under IPIP. Specific RDO/C financed and other private efforts are currently underway to develop similar projects in St. Kitts, Dominica, Antigua and Grenada.

1/ Personal and telephone interviews with private bank managers throughout the region by RDO/C staff and PDAP advisors have substantiated the interest by most commercial banks in the region. Further discussion is contained in the Summary Technical Analysis, Section V.B.

2. Eligibility for IPIP Participation

All public and private commercial banks will be eligible for borrowing and on-lending IPIP funds for eligible subprojects.

Eligible subprojects will include a maximum 80% of the cost of developing individual factory shells and industrial estates (parks). Industrial estates may include factory shells, facilities for services supportive of industrialist tenants of the factory shells, and such supportive infrastructure such as waste treatment, water, electricity, etc. as are necessary for the profitable operation of the industrial estate.

Developers borrowing IPIP resources will be obliged to provide a minimum of 20% of the cost of subproject costs, and must demonstrate subproject feasibility as well as satisfy the normal credit eligibility standards of the participating commercial bank.

Public development (non-commercial) banks will not be eligible to participate with IPIP, and publicly developed, owned or operated industrial estates or other facilities will not be eligible for IPIP financing. IPIP financing of individual factory shells for occupancy by the developers themselves will be limited to projects requiring loans of $250,000 or more. A total of $2 million will be earmarked for individual factory shell financing.

The primary aim of the Project is to finance the development of industrial floorspace in the most efficient possible manner; and most IPIP borrowers will be developers of relatively large industrial estates. The minimum loan size of $250,000 has been established so as to avoid an unmanageable proliferation of small transactions which would be most appropriately handled by other institutions such as the RDO/C financed Caribbean Financial Services Corporation.

3. Subproject Development and Processing

Private investors will develop proposals for industrial estate and factory shell subprojects in accordance with guidance provided by the participating commercial banks of their choice. Participating commercial banks will assess subproject proposals for their eligibility under the Project as well as for their bankability according to normal commercial lending standards. Collateral requirements, in most cases, will include the industrial estate and related properties; additional guarantees will not ordinarily be required. All sub-borrowers will also be required to supply satisfactory credit references.

RDO/C contracted advisors residing in each of the OECS countries and providing assistance with investment promotion and facilitation under the Investment Promotion and Export Development (IPED)

Project, will be available to provide investors and the participating banks with project development assistance as necessary. The kinds and degrees of assistance to be provided by the IPED advisors and IPED contractor support systems will depend upon specific subproject requirements and other logistical considerations. Such services are expected to include: generation of subproject opportunity (i.e. identification of local partners, local financing, etc.), identification of potential investors for subproject development, communication/liaison between foreign and Caribbean subproject participants, feasibility analysis and others. All necessary negotiation with OECS governments for subproject development and implementation will be the responsibility of the private investor/developer. (Annex G contains a description of the St. Lucia private industrial estate project which will seek IPIP financing, and will serve as a prototype for other such subprojects.)

Licensing, land acquisition, tax holidays and other concessions and construction standards[1/] are among the matters which investor/developers will negotiate with host governments.

Subprojects approved for financing under IPIP will be provided with lines of credit by participating commercial banks in accordance with ordinary bank operating procedures.

It is expected that the developer/sub-borrower will assume all foreign exchange risk as a component of loan repayment obligations under each subloan agreement.

4. ECCB Operation

The ECCB will function as an A.I.D. borrower and a financial intermediary for IPIP implementation. Through its extensive, functional network of relationships through the commercial financial community of the OECS, the ECCB will avail all interested commercial banks of access to the IPIP credit facility, providing guidelines and eligibility criteria and responding to enquiries as necessary.

The ECCB will receive proposals from participating banks for subproject financing after such proposals have been thoroughly developed, reviewed by the bank and approved as eligible for financing under IPIP and as bankable according to normal banking standards. The ECCB will review each proposal for full compliance with IPIP objectives

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1/ All Project financed construction will be required by law in each country to comply with engineering standards of the council of Caribbean Engineering Organizations, which currently include minimums of 120 mph wind resistance and earthquake tubulence in accerlance with the lateral force requirements set out by the California Code.

and eligibility criteria. Appropriately tailored credit lines will be opened to the applicant bank for approved applications and disbursement will occur as required for project financing. Requests for disbursement from A.I.D. will be submitted along with evidence of ECCB disbursement(s) and other documentation as necessary.

Disbursement of IPIP resources will occur in response to demands. In order to ensure that each OECS country has ample opportunity to participate in the project, however, the ECCB will hold in reserve for a maximum of one year from the date of IPIP initiation, the sum of US$500,000 for subproject financing in each of the OECS countries. After the first year of IPIP implementation, any remaining balance of the reserve will be made available for lending in any of the OECS countries.

During the first two years of IPIP operation, RDO/C will provide ECCB with a contracted Project Manager who will serve as the principal ECCB liaison with participating commercial bankers and RDO/C for purposes of project implementation. Among the responsibilities of the Manager will be: the development of project procedures and guidelines; management of project related communication, reporting etc. with participating banks and with A.I.D.; review of all applications for financing for eligibility; and management of loan approval and project monitoring documentation. During the third project year, ECCB will assume responsibility for costs associated with continued assistance by the Project Manager and/or any other administrative support costs as should be necessary. The bulk of IPIP resources are expected to be disbursed during the first two years. Third and subsequent year operating costs are expected to be low and easily absorbed by the margin allowed the ECCB for serving as A.I.D. borrower and financial intermediary (See Financial Analysis).

5. Summary of Terms, Rates and Conditions

Borrower	Terms	Interest Rates	Conditions/Observations
Private Developer	Up to 20 years including maximum of 3 years grace	10%	Assumes full responsibility for foreign (hard) currency denominated loan repayment Responsible for repayment according to standard commercial banking practices
Private Commercial Bank	Up to 20 years including maximum 3 years grace	6%	Assumes full commercial risk. Passes foreign exchange risk to borrower Responsible to ECCB for full repayment in accordance with agreement terms
ECCB	25 years including 5 years grace	2% during grace, 3% thereafter	Responsible for U.S. Dollar repayment to A.I.D. in full amount of funds drawn down under project Passes foreign exchange risk to borrower

IV. IMPLEMENTATION PLAN

A. Implementation Overview

The negotiation and signature of the Loan Agreement will take place in August 1984, and will be followed quickly by the contracting by RDO/C of the Project Manger to be stationed at the ECCB; arrangement for the Baseline Study; and by the issuance by the ECCB of a Circular to the OECS governments formally announcing the initiation of this Project; and the issuance by the ECCB of a circular to the commercial banks describing the bases of eligibility for borrowers and their proposed subprojects, and the terms and conditions on which Project funds will be lent. Following these steps, the implementation of IPIP may be analyzed in three parts: Credit, construction and administration.

1. Credit

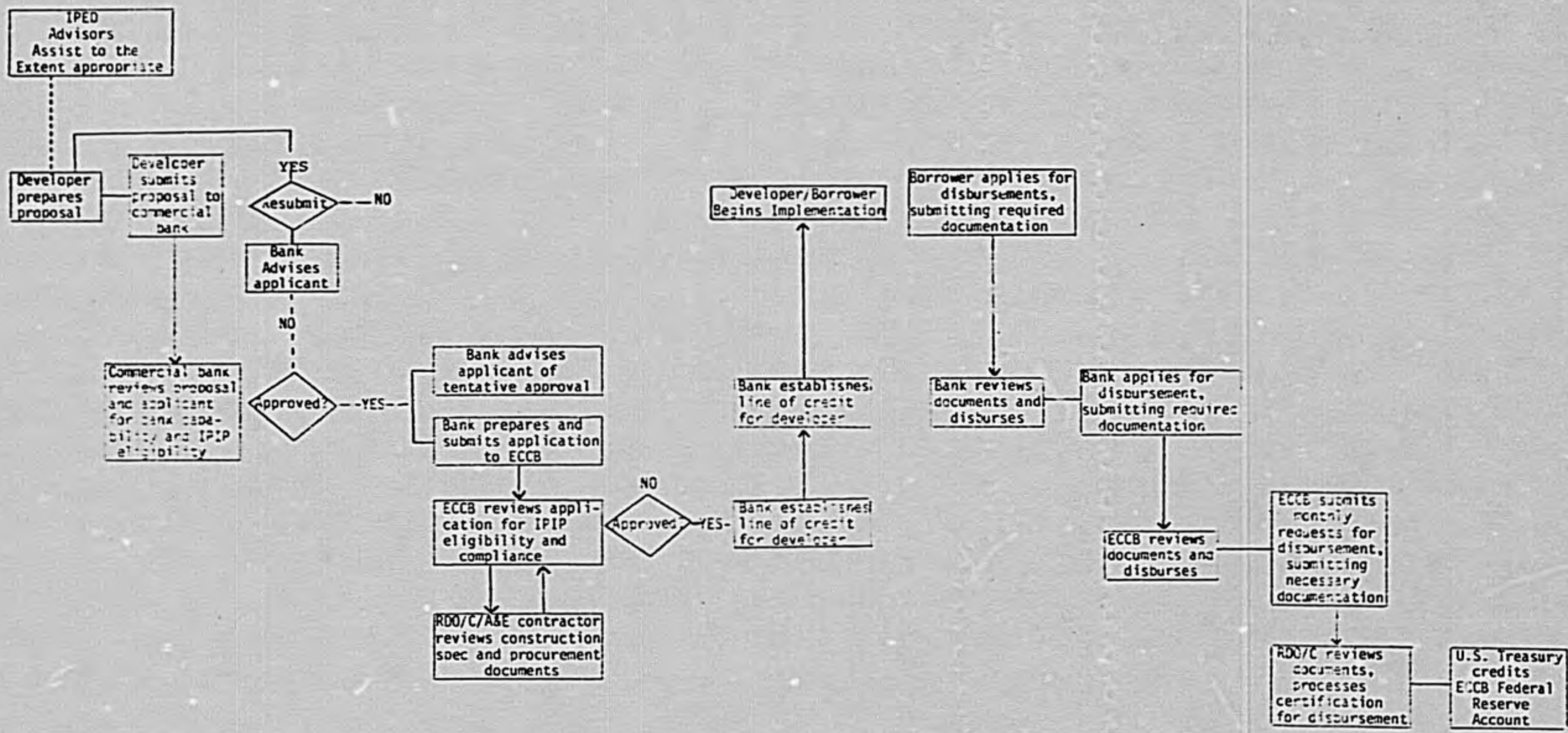
Credit operations will consist of the lending by commercial banks of a total of $12 million to private entrepreneurs to finance privately owned factory shells and industrial estates. Considering the projects being developed by Free Zone Authority Services, Inc. and to be developed by IPED, we estimate that throughout the participating islands there will be between ten and twenty subprojects, some featuring phased construction, during the three years of the Project. Commercial banks will receive loan applications from private individuals or groups wishing to establish or expand privately owned and operated industrial estates. Banks will require a minimum 20% equity position in the subproject by the owner, with the credit covering the other 80%. The physical assets of the estate itself will meet the banks' collateral requirements. These applications will be reviewed, approved or rejected, disbursed, monitored, and collected under the banks' usual procedures. The commercial bank review of each application will be subjected to an eligibility approval by the ECCB. Eligible credits extended by the commercial banks will be fully discounted by the ECCB, and rediscounted by the AID Loan, as the credits are drawn down. Figure IV provides a flow chart of credit operations and procedures.

2. Construction

Construction operations will include site preparation, factory shell erection, and a variety of civil works depending on the infrastructure needs of each site. The entrepreneurs setting up these estates will arrange for preliminary design, including construction drawings and estimated work quantities, as part of their credit applications; the cost of final design and construction supervision may be included in the overall subproject cost and financed under the Loan. The selection of engineers, architects, construction and other suppliers (e.g., construction materials or special installation services) will be made by the developers.

Figure IV.1

CREDIT OPERATIONS AND PROCEDURAL FLOW



3. Administration

Administration by the ECCB will include the review for eligibility for funding under the AID loan of credit applications submitted by commercial banks; communication with commercial banks and AID; inspections of commodity deliveries, work in progress, and completions; and visits to completed estates to collect data on the businesses using the estates, their production and sales levels, work forces, and exports. These tasks will be performed for the ECCB by a personal-service contractor provided by AID under the IPED Grant (Project No. 538-0229) for the first two years of IPIP. This PSC will be contracted by AID with the concurrence of the ECCB, and will be stationed at the ECCB in St. Kitts during his contract term. In collaboration with this PSC, RDO/C will provide, either from its Engineering Office or through short-term Task Orders wth local firms, price reviews of construction plans, bid documents, and other procurement documents.

B. Procurement

A principal premise of the Project design is that commercial banks and private developers, working together following customary commercial practices, can produce factory shell space more rapidly and more efficiently than the public sector approach used to date in the region. However to obtain these advantages, and indeed to even obtain the participation of commercial banks and private developers in the Project, we cannot impose overly constraining procurement requirements. One waiver will be required to carry out the Project, a source/origin waiver. Competitive techniques, as set forth below, will be utilized in Project implementation in conformity with A.I.D.'s competitive principles.

1. Waiver

It is estimated that of the $12.0 million in construction to be financed under the Project, $6.0 million represents the cost of materials and equipment which would be procured directly by the developer or the construction company. Of this amount, A.I.D. is seeking a source and origin waiver in the amount of $3,000,000, a figure which reflects the existing trade patterns in the Eastern Caribbean, i.e., as much as 50% of the goods sold by outside suppliers in the region originate in Code 899 countries that are not included in Code 941. As practically none of these materials would have their origin in the country which is the situs of a particular activity, they would either be imported especially for the Project or purchased off the shelf. Because of traditional trade patterns in the region, much of the construction materials and equipment used in the region originates in England, Canada and Japan. To require individual waivers for each Code 899 procurement that is not genuinely an off-the-shelf procurement of less the $5,000 would require a system of control placing a burden on RDO/C, the ECCB, the commercial banks and the developers that would seriously undermine the feasibility of the Project. Therefore, a blanket $3.0 million waiver of the 941 source and origin requirement to A.I.D. Code Geographic Code 899 is requested for materials and equipment to be financed under the Project. In the Mission's estimation, it is vital that the private sector investors, which are essential to the success of this Project, be in a position to utilize their traditional trading partners and patterns in procurement to carry out their investments. Thus, the ability of sub-borrowers to procure from Code 899 countries is viewed as critical to the success of the Project. Construction and A&E services will be obtained from Code 941 countries following A.I.D. procurement rules for ICI sub-borrowers.

2. Procurement

The Mission believes it is unreasonable to require private developers to go through the full formal competition procedures for the letting of construction contracts (some of which will exceed $500,000) and for other services. The time, expense and complications for the private developer would be a serious deterent to their participation in the Project and jeopardize achievement of the Project goals.

With regard to procurement by sub-borrowers of services including construction services, under local cost financing, A.I.D. HB. 19 (Intermediate Credit Institutions) makes applicable the principles, but not the procedures, of Ch. 12, A.I.D. HB. 19. With regard to construction services, Ch. 12, as a procedural matter, requires formal competitive bidding among qualified bidders. The Mission feels based upon discussions held with potential investors that, if full formal competitive bidding procedures are imposed upon the investors, the onerous, time consuming burdens of such a process will result in decisions by investors not to utilize the resources of this Project. Accordingly, the Project does not include the use of of formal competitive bidding procedures for ICI-funded construction contracts. However, since Ch. 19, in conjunction with Ch. 12, imposes a general requirement and principle of competitive procurement, steps will be taken in the implementation process to assure that competition is obtained in all sub-borrower transactions.

Similarly, for dollar-financed transactions of sub-borrowers, the necessary steps will be taken to assure that a measure of competition is obtained. While under A.I.D. rules for ICI dollar financed activities set forth in A.I.D. HB. 1B, Ch. 19, formal competition is not required, the implementation process for this Project will incorporate procedures encouraging sufficient competition to obtain reasonable prices.

While competitive techniques will be required to be used in the construction procurement process, these procedures will not involve advertisement in the Commerce Business Daily, but rather publicity in regional or local journals or other effective means, as appropriate. Chapter 19 provides that advertising in the publication, "A.I.D. Financed Export Opportunities" is applicable only to procurement under formal competitive procedures. Since formal competition is not required for ICI procurement, advertisement in that publication is not contemplated.

Any sole source procurement of sub-borrowers will be subject to prior A.I.D. approval in accordance with A.I.D. regulations.

For those investor/developers which also have business interests in construction or the supply of materials to be used in construction, "arms length negotiation" procedures will be required, i.e., the developer's supervising engineer will request bids from competing suppliers or contractors, and the developer will only be permitted to use the services of his own company to the extent the costs are less than competing offers. RDO/C engineers and/or a PD&S funded local engineering firm will analyze each such procurement process and verify the reasonableness of cost before such a sub-activity will be approved for A.I.D.-financing.

C. Disbursement

The commercial bank credits will be disbursed to borrowing entrepreneurs as the work progresses, and will be discounted in full by the ECCB through a credit to the commercial bank's account at the ECCB. These discounts will be rediscounted in full by AID through credits to the ECCB's account at the Federal Reserve in New York.

D. Reports by ECCB

The ECCB will provide AID with a Quarterly Progress Report covering each subproject application under consideration by the ECCB, the status of approved subprojects; and the use of each completed subproject, with mention of the businesses in the estate and their operations, work force, and exports realized and projected. The Report also will comment on the ECCB's administration of the Project, will present a financial summary, and will note problems encourntered and their proposed solutions. The format of this Report will be worked out by the PSC Contractor stationed at the ECCB and RDO/C.

E. Montoring by AID

The RDO/C Private Sector Division (PSD) will monitor IPIP through periodic meetings and regular correspondence with the PSC Contractor and ECCB officials; review of Quarterly Progress Reports and all Loan Disbursement Requests; interviews with engineering and construction contractors; inspections of work in progress and completed estates; and interviews with estate owners, tenants, and workers in the estates. PSD will be assisted as necessary by the RDO/C Office of Engineering.

F. Evaluation

AID will evaluate this Project from two perspectives: the extent of achievement of the Goal and Purpose mix of employment creation, new investment, and export sales; and the social and cultural effects of private industrial estates and factory work. A Baseline Study will be carried out early in the Project, and the Evaluation will be performed near the end of the Project's third year.

G. Calendar of Events

Loan Agreement Signed	August, 1984
ECCB PSC Contract Advertised	"
Baseline Study Contract Advertised	"
ECCB Program Circular issued	September
PSC Contracted	October
Baseline Study	"
First Credit Application	November
First Credit Approval	January, 1985
First Construction Start	March
First Completion	September
Last Credit	March, 1986
Last Start	June
Evaluation Contract Advertised	December
Evaluation Contracted	July, 1987
Last Completion	August, 1987
PACD	August, 1987

H. Conditions and Covenants

In addition to the standard conditions and covenants, the Project Agreement will contain the following conditions precedent.

Prior to disbursement under the Project, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Borrower will:

1. submit, in form and substance satisfactory to A.I.D. a) evidence that the Borrower has advised all the governments of the OECS countries of the initiation of the Project, its objectives and A.I.D's participation in the Project; and b) evidence that all commercial banks operating in OECS countries have been provided with a description of the Project, the terms and conditions of financing under the Project, and the procedures to be followed by banks soliciting funds under the Project; and

2. submit in form and substance satisfactory to A.I.D., a plan for project management which includes the specific duties of the RDO/C constructed Project Manager.

V. PROJECT ANALYSES

A. Financial Analysis

The interest rate structure for the project has been established to acheive the following objectives:

- Provide the ECCB with a sufficient margin to cover its administrative costs associated with implementation of the Project, and to be able to absorb additional downward adjustments in interest rates given to investor/borrowers as may be necessary1/.

- Provide private intermediate commercial banks with a sufficient spread to compensate for their acceptance of the commercial lending risk; and

- Provide loan terms to private industrial estate developers that will allow an attractive but reasonable return on equity investment.

1. Financial Feasibility for the ECCB

ECCB administrative costs are estimated at 1% of the outstanding Project portfolio. As this is to be a new undertaking for ECCB, technical assistance to manage the project will be provided by AID for the first 2 years. During year three, an additional 1/2% has been added to administrative costs as ECCB assumes full management of the program. The proposed interest rates from AID to ECCB allows for a 4% spread during the grace period and 3% thereafter. The cash flow forecast V.A.1. shows significant cumulative surpluses are generated over the term of the loan from AID.

An RDO/C survey of commercial banks in the OECS countries, indicates that a 4% spread is required in order to attract the banks' participation. This spread will absorb the banks' administrative costs and compensate them sufficiently for their assumption of the commercial risk associated with each subproject.

Given the established operational and regulatory relationships between the ECCB and the commercial banks, repayment of loans to the ECCB by the bank is not considered to be at significant risk.

1/ Current projections of regional and international interest rates as well as RDO/C demand analysis indicate that 10% interest to the investor/borrower will provide sufficient opportunity for reasonable returns on investments. Should interest rates drop significantly however, or should demand for Project financing net materialize as anticipated, the ECCB margin will be able to absorb up to a 2% downward adjustment.

On-lending banks will hold liens on the assets of subprojects, and will establish that each sub-borrower is thoroughly credit worthy. The feasibility/profitability of each subproject will be assessed according to the normal standards of the participating banks assisted as necessary by the RDO/C contracted IPED advisors.

2. Financial Feasibility of Private Industrial Estate Development

The specific interest rate and terms for loans to private industrial estate developers will be fixed under the Project at 10%. The Project will finance up to a maximum of 80% of the costs of estate development (matching owners 20% equity). The financial viability of each subproject will be determined through individual analysis. As a basis for assessing the general feasibility of private industrial estates and the rates of interest which would be required to support their development, the Mission has employed the analysis conducted by FZAS, the results of which are contained in Annex G. The specific subproject which has been developed by FZAS for implementation in St. Lucia demonstrates that an interest rate of 10% would yield a rate of return on equity that would be sufficiently attractive to offset perceived risk.

Expressions of interest by investors for IPIP participation at 10% interest have also come form Dominica, St. Christopher, Antigua and Grenada.

The entire analysis of the proposed private development in St. Lucia is contained in Annex G. Some details are as follows:

The estate is proposed to be developed within the St. Lucian industrial zone area of Vieux Fort where the Government of St. Lucia has agreed to sell or long-term lease the necessary land. The two-phase project involves the development of sixteen acres of land on which 158,000 sq. ft. of floorspace would be constructed. Capital requirements are estimated at approximately $3.8 million. Capital investment would consist of 20% equity to be provided by the private investors, and 80% long-term debt. While specific financing negotiations have not yet begun, it is anticipated that after project approval, the developers will approach a commercial bank with their proposal. Analysis indicates that with terms of 18 years, including three years of grace on principal repayment, and an interest rate of 10% per annum the developers can recover their equity in approximately 5 years while obtaining an acceptable rate of return over the financing period.

Financial projections for the two phase development of the St. Lucia estate have been made on the following assumptions:

$3.35 million project loan for 18 years with three years grace at 10% per annum.

[illegible]

[illegible] FLOW FOR [illegible] $,000

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25
Source of Funds																									
AID Loan	4000	4000	4000																						
Sub-Loan Amortization	-	-	-	382	764	1146	1146	1146	1146	1146	1146	1146	1146	1146	1146	1146	1146	1146	1146	1146	764	382			
Interest Income	120	360	600	480	240																				
TOTAL	4120	4160	4600	862	1004	1146	1146	1146	1146	1146	1146	1146	1146	1146	1146	1146	1146	1146	1146	1146	764	382			
Use of Funds																									
Sub-Loans	4000	4000	4000																						
Principal Repayment						600	600	600	600	600	600	600	600	600	600	600	600	600	600	600	600	600	[illegible]	[illegible]	[illegible]
Interest Expense	40	120	180	240	240	360	342	324	306	288	270	252	234	216	192	180	162	144	126	108	90	72	54	36	18
Admin Costs	50	110	180	120	120	120	120	120	120	120	120	120	120	120	120	120	120	120	120	120	120	120	120	120	120
TOTAL	4090	4230	4360	360	360	1080	1062	1044	1026	1008	990	972	954	936	928	900	882	864	846	828	810	792	774	756	738
Surplus (Deficit)	30	130	240	502	644	66	84	102	120	138	156	174	192	210	226	246	264	282	300	318	(46)	(410)	(774)	(756)	(738)
Cumulative	30	160	400	902	1546	1612	1696	1798	1918	2056	2212	2386	2578	2768	3016	3262	3526	3808	4108	4426	4380	3970	3196	2440	1702

Assumptions

(1) The [illegible] receives resources from AID at 2% over the grace period and 3% thereafter.

(2) [illegible] lends to commercial institutions at 6% with repayment amortized over 20 yrs with 3 years grace.

(3) Administration cost is: 1% of sub-loans outstanding in years 1 and 2
1½% of sub-loans outstanding in year 3.
1% of total borrowing in yrs 4 - 25.

(4) AID funds of $12 million will be disbursed in equal annual amounts

(5) The interest expense is calculated on an average annual balance of sub-loans outstanding.

(6) No account is taken of income from [illegible] use of reflows

Figure V.A.1

- $839,000 equity base.
- $20.57 sq. ft. construction costs. (With 12% inflation related increase for second year construction under Phase II).
- Full occupancy by December 1985 of 98,000 sq. ft. first phase construction.
- $3.15/sq. ft. per year rental income (increased with inflation at five year intervals.
- Operating costs of one-half percent of construction cost for the first five years and one percent thereafter.
- A ten year tax holiday[1].
- Duty free importation of construction inputs[2].
- Continued increase in rental rates for publicity industrial estates[2].

Figure V.A.2 provides "projected cashflow/income statement for the St. Lucia project. Annex G contains further projections and interest rate sensitivity analysis.

While additional analysis, project development and negotiating remains to be done on the St. Lucia private industrial estate, the potential for the development of such projects is considered to be sound in most of the LDCs, and the Mission projects that the demand for financing of private industrial estates exceed the $12 million in Project resources.

B. Summary Technical Analysis

Assessment of the technical feasibility of the Project is contained throughout the Project Paper and is summarized here. Primary technical considerations include: Demand (both for industrial floorspace and for Project financing), land availability for industrial estate construction and access to the goods and services required for industrial estate development.

1/ Agreed to in principal by GOSL.

2/ Specifically agreed to by GOSL.

FIGURE V.A.2

ST. LUCIA INDUSTRIAL ESTATE PROJECT
PROJECTED CASH FLOW AND INCOME STATEMENTS

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
INCOME STATEMENT																				
REVENUE	.15	.49	.61	.74	.83	.91	1	1.11	1.22	1.34	1.47	1.62	1.95	2.18	2.37	2.61	2.87	3.16	3.46	3.72
OPERATING COSTS																				
SALARIES	.016	.018	.021	.024	.026	.029	.032	.035	.038	.042	.047	.052	.057	.062	.069	.076	.083	.092	.1	.11
OVERHEAD	.06	.07	.08	.09	.1	.11	.12	.13	.14	.16	.18	.19	.21	.23	.25	.28	.31	.34	.37	.41
MAINTENANC	.012	.14	.015	.018	.019	.048	.049	.053	.058	.064	.07	.078	.085	.094	.1	.11	.13	.14	.15	.17
DEPRECIATION	.104	.158	.158	.158	.158	.158	.158	.158	.158	.158	.158	.158	.158	.158	.158	.158	.158	.158	.158	.158
INTEREST	0	.207	.358	.358	.345	.331	.317	.301	.286	.27	.247	.226	.203	.177	.151	.122	.091	.058		
TOTAL OPERATING COSTS	.192	.593	.632	.648	.648	.676	.676	.677	.68	.694	.702	.704	.713	.721	.728	.746	.772	.788	.778	.848
NET INCOME AFTER INT.	-.042	-.103	-.022	.092	.182	.234	.324	.433	.54	.646	.768	.916	1.237	1.459	1.642	1.864	2.098	2.372	2.702	2.872
CORP. INCOME TAX @ 45%	0	0	0	0	0	0	0	0	0	0	.3456	.4122	.5567	.6566	.7389	.8388	.9441	1.067	1.216	1.292
NET INCOME AFTER TAXES	-.042	-.103	-.022	.092	.182	.234	.324	.433	.54	.646	.4224	.5038	.6804	.8025	.9031	1.025	1.154	1.305	1.486	1.580
CASH FLOW																				
SOURCES OF FUNDS																				
NET INCOME	-.042	-.103	-.022	.092	.182	.234	.324	.433	.54	.646	.4224	.5038	.6804	.8025	.9031	1.025	1.154	1.305	1.486	1.580
DEPRECIATION	.104	.158	.158	.158	.158	.158	.158	.158	.158	.158	.158	.158	.158	.158	.158	.158	.158	.158	.158	.158
PRIVATE EQUITY	.488	.351																		
LONGTERM LOAN	1.95	1.4																		
TOTAL SOURCES	2.5	1.806	.136	.25	.34	.392	.482	.591	.698	.804	.5804	.6618	.8384	.9605	1.061	1.183	1.312	1.463	1.644	1.738
USES OF FUNDS																				
PROJECT INVESTMENT	2.436	1.76	0																	
LOAN AMORITIZATION	0	0	0	.124	.134	.145	.156	.169	.181	.194	.212	.229	.247	.268	.289	.312	.337	.363	.094	
TOTAL USES	2.436	1.76	0	.124	.134	.145	.156	.169	.181	.194	.212	.229	.247	.268	.289	.312	.337	.22	.094	
SURPLUS (DEFICIT)	.064	.046	.136	.126	.206	.247	.326	.422	.517	.61	.3684	.4328	.5914	.6925	.7721	.8712	.9749	1.243	1.550	1.738
CUM. SURPLUS (DEFICIT)	.064	.11	.246	.372	.578	.825	1.151	1.573	2.09	2.7	3.068	3.501	4.093	4.785	5.557	6.428	7.403	8.546	10.20	11.93

INTEREST RATE = 10%
PAY BACK PERIOD = 5 YEARS
NOMINAL RETURN = 28.5%

1. Demand

a. For Factory Space

As indicated in Section IIC, with demand by manufacturers for industrial floorspace during the next three years is estimated at well over a million; and given current levels of financing additional resources are needed to provide over 200,000 additional sq. ft. per year through 1986. In addition, as floorspace unavailability is removed as an impediment to investment the attractiveness of the region as an investment host will be substantially improved further increasing floorspace demand.

b. For Project Provided Financing

The Financial Analysis Section and Annex G describe an industrial estate subproject involving U.S. and St. Lucian investor/developers which will be ready for participation as soon as funds are available. This subproject is expected to require more than $3.4 million in Project loan financing during the next 18 months.

Additional firm demand for approximately $1.3 million has been expressed by an industrial real estate developer in St. Kitts who will develop his 100,000 sq. ft. industrial park in 30,000 sq. ft. phases during the course of the Project.

Through the AID contracted efforts of Free Zone Authority Services, Inc., additional industrial estate subprojects are being developed in Antigua and Dominica which are expected to require at least $1 million each.

Subproject development efforts are also underway in Grenada by U.S. and Grenadian developers which are expected to require substantial financing under the Project.

Each of these specific subprojects expected to be financed under the Project have identified specific committed or potential foreign and/or local investors. Negotiations with host governments for land leases and investment incentives associated with each subproject have been either consummated or substantially advanced. Total demand for IPIP financing by these subprojects alone is estimated at over $7 million.

2. Commercial Bank Participation

Contact has been made by RDO/C staff and contractors with most of the branches of commercial banks in the region as well as with regional offices in Barbados, Coral Gables and Toronto, and sufficient interest has been expressed to initiate the Project. Further interest is expected to accompany the submission of proposals from investor/developers.

Barclays Bank, one of the two most widely represented commercial banks, has indicated interest at the branch bank level and cautious interest at the regional office in Barbados. While the type of financing being proposed by IPIP is out of the ordinary for Barclays, it is willing to consider each subproject proposal based on its own merit. Barclays would participate for the proposed 4% margin and would consider restricting collateral requirements to the assets of the Project itself. Normally, Barclays requires at least one-third equity by the borrower, but will consider individual exceptions.

Royal Bank of Canada, (the second most widely represented) like Barclays is cautious at the regional office level in Coral Gables. Royal will, however, apply its normal standards to each project as it is proposed.

The Bank of Nova Scotia is enthusiastic at the branch and regional (Toronto) levels and has indicated strong interest in participation according to the terms proposed by the Project.

The Canadian Imperial Bank of Commerce is also strongly interested and will participate as appropriate.

The national commercial banks have expressed interest in Grenada and St. Kitts. Others are considering the Project and will await further discussions with the ECCB before deciding to participate. (See Annex I for a listing of all commercial Banks in the region by country).

3. Land Availability

The small island countries of the region all experience difficulties of land availability. The problem is further exacerbated by the fact that most sites ideally suited for industrial infrastructure development are publicly owned or controlled. Private industrial estate development, in many cases, will be dependent upon long term land leases or purchase agreements with host governments. The feasibility analysis which was conducted by FZAS found all of the OECS governments to be generally receptive to private industrial estate development. The description of the St. Lucia subproject (Annex G) contains the commitment of the Government of St. Lucia to providing prime free zone sites. The Prime Minister of Dominica has made a similar commitment of land. Similar negotiations are expected with each OECS government.

4. Construction and other Services

The region has several competent construction and architectural engineering firms, as well as structural steel and pre-fabricated building component providers. The AID financed Caribbean Development Bank Industrial Estates Project has utilized private, local construction and A and E firm for the development of most of the industrial floorspace since 1972. With the exception of St. Vincent, each of the OECS countries has a minimum of these construction contractors capable of providing services to borrowers of IPIP resouces.

Building materials and equipment are generally imported from U.S. and other developed countries. Section IV, Implementation Plan, discusses the waivers which will be required for the efficient procurement of material inputs for Project implementation.

C. Economic Analysis

While the project is expected to have positive impact on all productive sectors, the manufacturing sector will be the primary beneficiary. The significance of the manufacturing sector to the economic growth and well being of the region is substantial:

. Manufacturing sector contribution to GDP is over 5% in all OECS countries except Grenada and up to 14% in St. Vincent. The sector's share of GDP has doubled since 1976 in Antigua and St. Vincent.

. Manufacturing accounts for approximately 10,000 new jobs since 1976. The sector employs 4% of agrarian Dominica's work force and 22% in St. Kitts. Moreover, manufacturing is estimated to be the sector of greatest growth throughout this decade.

. Manufacturing generated over $60 million in foreign exchange in 1981, three times the amount of 1976. The sector accounts for over 25% of all foreign exchange receipts in most LDCs - 33% in Dominica.

An ideal economic analysis of the AID-funded industrial shell construction project would not examine this project in isolation but the larger activity of which it is a part. Factory shells are valuable only to the extent that they produce output, and this can occur only with the addition of more investment and with labor and material inputs. Costs of the activity (appropriately "shadow-priced" inputs of investment, materials, and labor) would be compared with benefits ("shadow-priced" outputs of goods, as well as other indirect benefits), and a flow of net benefits over the project's lifetime would be calculated. A second scenario--reflecting costs and benefits if the project were not done--would be similarly analyzed. The difference between the two streams of net benefits represents the net benefits attributable to the project.

In place of this approach--and because of data and time limitations--the following analysis focuses on the employment goal of the project. The line of reasoning is this: (1) the AID investment buys shells; (2) together with the investment by industrialists in machinery to fill those shells, employment is generated; (3) the value of that employment to the economy can be considered a proxy measure of the benefits of the project to the economy. We select this methodology because the "whole activity" approach is very difficult at this stage: we have little solid information on what types or sizes of firms are likely to fill the shells.

We take three steps in our methodology, once we have determined what area of floorspace will result from the project. First, we estimate the number of workers who will occupy that floorspace. Second, we assign responsibility for that employment creation to both the shell investment and the other capital investment in the project and ignore the latter. Third, we assign a value to that component of employment which we estimated in step two was attributable to the shell construction. This final step is the least easy--technically and theoretically--but we leap forward anyway. If we assume that the wage rate approximately reflects value added by labor, and that the opportunity cost of labor is 25 percent of the wage rate, the net benefit of the labor input is 75 percent of labor's value added.

Our approach examines the project in relation to what would have occurred in its absence. As for costs, Table I details both "with project" costs and costs if the project were not done, and then derives the incremental costs (i.e., the difference between those two conditions). In the interest of maintaining a conservative estimate of project benefits, we have determined that, if the project were not done, new factory shell space would be half that estimated in the "with project" case. These incremental costs associated with the project are the only ones used in this analysis.

The benefit side of the analysis places a value on the employment generated by the project. Table III estimates the number of employees at work in each of the 20 years of the project. This estimate uses the difference between "with " and "without project" shell floorspace to calculate the number of workers productively employed in the factories. An average of 150 square feet of floorspace per employee is used in the estimate and the (perhaps strong) assumption is made that the 75 percent of floorspace under construction one year will be fully in use that year and that thereafter it will be 90 percent occupied.

To assess the economic value of this incremental employment, we made two adjustments to the annual wage rate ($2220) calculated by RDO/C consultants. First, we take 75 percent of this wage rate as the net benefit to the economy. Unemployment is very high and the minimum wage is therefore higher than that required to attract additional entrants to the employed labor force. Still, the new entrants to the formal labor force presumably perform some function on the informal economy. Second, we adjust the derived net benefit of labor by a second factor to take account of the fact that shell construction alone cannot create jobs. As we note above, the jobs are a result of both the investment in shells and the investment in machinery and equipment to fill the shells. In Table IV, note 2 it is calculated that 45 percent of total investment in each firm, on average, is investment in the shell.

Therefore, we assume that 45 percent of the incremental employment benefits are a direct result of the incremental shell construction. Gross benefits from the project are displayed in Table IV.

The project's economic rate of return is about 16 percent, using this methodology. The rate of return is favorable, given that the activity is an infrastructure project. In addition, other benefits that will clearly flow from the project are not included, primarily because of quantification problems. First, the Project's impact on both public and private sector future abilities to attract investment is difficult to measure, but is an intended benefit of the project. Second, technical assistance will cut down on delays between project identification and loan application, an improvement that will continue beyond the funded life of the Project. Third, the political and social benefits of reducing unemployment are important but are beyond the scope of our analysis, although to some extent they are built into our assessment of the shadow price of labor. Finally, our analysis takes no account of indirect benefits that will arise as activity under this project generates subsequent rounds of economic activity. All these other benefits, if quantified, would probably raise the internal economic rate of return by several percentage points, thereby strengthening our confidence in what is already a strong project.

TABLE I: PROJECT COSTS

	(Thousand dollars)			
	YEAR 0	YEAR 1	YEAR 2	TOTAL
Total "With Project" Investment	5,000	5,000	5,000	15,000
AID Loan	(4,000)	(4,000)	(4,000)	(12,000)
Private Equity	(1,000)	(1,000)	(1,000)	(3,000)
Total "Without Project" Investment	2,500	2,500	2,500	7,500
Total Incremental Investment	2,500	2,500	2,500	7,500

Notes:

1) "With Project" means "given that the project is carried out". "Without Project" means "if the project were not done". The difference is the incremental cost of the project to the economy.

2) RDO/C consultants estimate that half the shell space would be built even if the project were not done.

3) The loan terms require that any borrower/developer match one-fourth of the loan funds.

TABLE II: SHELL CONSTRUCTION

	Thousand square feet			
	YEAR 0	YEAR 1	YEAR 2	TOTAL
"With Project" construction	238.1	212.8	190.1	641.0
"Without Project" construction	119.0	106.4	95.0	320.5
Incremental Construction	119.0	106.4	95.0	320.5

Notes:

1) Unit construction costs ($/sq. ft.), with 12 percent cost inflation included, are: Year 0 -- $21.0; Year 1 -- $23.5; Year 2 -- $26.3. The investment figures in Table I are divided by these unit costs.

TABLE III - EMPLOYMENT GENERATED

	YEAR 0	YEAR 1	YEAR 2	YEAR 3	YEARS 4-20
"With Project"					
Shells completed (th sq. ft.)	-0-	238.1	450.9	641.0	641.0
Shells in use (th sq. ft.)	-0-	178.6	373.9	548.4	576.9
Employees at work	-0-	1191	2493	3656	3846
"Without Project"					
Shells completed (th sq. ft.)	-0-	119.0	225.4	320.5	320.5
Shells in use (th sq. ft.)	-0-	89.3	187.0	274.2	288.4
Employees at work	-0-	595	1246	1828	1923
Incremental					
Shells Completed (th sq. ft.)	-0-	119.0	225.4	320.5	320.5
Shells in use (th. sq. ft.)	-0-	89.3	187.0	274.2	288.4
Employees at work	-0-	595	1246	1828	1923

Notes:

1) "Shells Completed" are those existing plus those built the previous year, from Table II.

2) "Shells in use" is calculated using the assumptions that occupancy will be 75 percent the first year of completion and 90 percent thereafter.

3) "Employees at work" is dividing "shells in use" by 150 square feet, the average floorspace per employee.

TABLE IV: CALCULATION OF BENEFITS

	YEAR 0	YEAR 1	YEAR 2	YEAR 3	YEARS 4-20
"With Project"					
Employees at work	-0-	1191	2493	3656	3846
Shell Share of Investment (%)	45	45	45	45	45
Net benefit per employee ($)	1665	1665	1665	1665	1665
Total Benefits (th $)	-0-	892	1868	2739	2882
"Without Project"					
Employees at work	-0-	595	1246	1828	1923
Shell Share of Investment (%)	45	45	45	45	45
Net benefit per employee ($)	1665	1665	1665	1665	1665
Total Benefits (th $)	-0-	446	934	1370	1441
Incremental					
Employees at work	-0-	595	1246	1828	1923
Shell Share of Investment (%)	45	45	45	45	45
Net benefit for employee ($)	1665	1665	1665	1665	1665
Total Benefits (th $)	-0-	446	934	1340	1441

Notes:

1) "Employees at work" from Table III.

2) "Shell share of investment": As discussed in text, employment is generated by having productive shells, a result of shell construction and investment in machinery to fill shells. With unit shell construction in Year 0 at $21, and RDO/C consultants' estimates that a rough average investment of machinery per square foot at $26, the shell investment share is 45 percent. (Machinery unit costs are the unweighted average of those in 2 export firms: garments at $17 per square foot and electronics at $35 per square foot.

3) As discussed in text, if the wage rate of $2,220 can be considered an approximate measure of value added by labor, and if the opportunity cost of labor is 25 percent of the wage, the average net benefits to society of each employee are 75 percent of the wage.

4) "Total benefits" are the product of the preceding three factors.

TABLE V: COST - BENEFIT TABLE

YEAR	BENEFITS	COSTS	NET BENEFITS
0	-0-	-2500	-2500
1	446	-2500	-2054
2	934	-2500	-1566
3	1370		1370
4-19	1441		1441
20	1441	1875	3316

Notes:

1) Benefits are the incremental benefits from Table IV.

2) Costs in years 0-2 are incremental costs from Table I. In year 20, a salvage value of 25 percent of incremental costs accrues to the project.

D. Institutional Analysis

1. Eastern Caribbean Central Bank (ECCB)

a. General

The Eastern Caribbean Central Bank was established on July 5, 1983, by the governments of Antigua & Barbuda, the Commonwealth of Dominica, Grenada, Montserrat, St. Christopher/Nevis, St. Lucia and St. Vincent and the Grenadines to assume the tasks previously performed by the Eastern Caribbean Currency Authority (ECCA) and to:

"(1) regulate the available of money and credit;

(2) promote and maintain monetary stability;

(3) promote credit and exchange conditions and a sound financial structure conducive to the balanced growth and development of the economies of the territories of the participating governments;

(4) actively promote through means consistent with its other objectives the economic development of the territories of the participating goverments."

The most important of ECCB's current development oriented activities is a Pre-shipment Export Finance Guarantee Scheme for OECS exporters through which the Bank is promoting the development of exports from the region. IPIP is recognized by ECCB managers as another major opportunity to address one of the region's major constriants to development - the lack of factory space.

The ECCB is governed by a Monetary Council comprised of one Minister from each participating government while responsibility for policy and general admistration of the Bank is vested in a nine member Board of Directors including a Governor and a Deputy Governor.

The Bank currently employs fourteen technical people in addition to its management, administrative and support staff, and four additional technical people are currently being recruited. Technical assistance is also provided by the IMF in the form of three resident advisors.

b. Relationship with Governments

The Bank functions as the banker, fiscal agent and advisor to the participating governments on monetary and financial matters, as well as a depository for governmental funds.

c. Relationship with the Commercial Banks

The ECCB has inherited a well established working relationship with the commercial banks in its member terrtitories. The ECCB's regulatory function vis-a-vis the commercial banks is expected to be a feature which will contribute to successful IPIP implementation.

2. Commercial Banks

The commercial banking sector of the ECCB member territories is dominated by four foreign owned commercial banks, Barclays Bank International Ltd, (BBI); Royal Bank of Canada, (RBC); Bank of Nova Scotia, (BNS) and Canadian Imperial Bank of Commerce, (CIBC). Several of the member governments of ECCB have also established national commercial banks. Annex I provides a listing of the commercial banks in each OECS country.

a. Foreign Owned Banks

Foreign owned banks have a network of offices throughout the OECS country offering normal commercial banking services. In each country there is a main branch which is managed by a territorial manager who has delegated authority to approve loan applications up to a certain limit. This limit varies from country to country. Applications for financing in excess of the country manager's limit are reviewed by the regional controlling offices of the banks. The regional offices for BBI and CIBC are located in Barbados while those for RBC and BNS are in Miami and Toronto, respectively.

The commercial banks have traditionally assumed a conservative approach to lending which predominantly has been for personal requirements and to the distributive trades. As a consequence, the banks have had little or no experience in assessing development proposals. While some of the banks have the necessary skills available to assess IPIP subproject proposals, it is anticipated that technical assistance will be necessary at the country level to assist the commercial banks in appraising proposals from private industrial estate developers. This assistance will be provided by the RDO/C financed IPED advisors residing in each country.

b. National Commercial Banks

National Commercial Banks (NCBs) are wholly owned public companies with a Board of Directors appointed by the Minister of Finance. Even though the institutions are supposed to function as autonomous units, the influence of government can never be completely ruled out since they were established as instruments for the execution of government policy. Like the foreign owned commercial banks the NCBs have had little if any experience in appraising long-term productive investment proposals.

Reactions from commercial banks have been variable (see Summary Technical Analyses), but indicate interest in considering proposals from developers based on individual project merit.

3. Industrial Estate Developers

As described in Section III, private industrial estates are virtually unknown in the region. Given the recent acceleration of demand for industrial floorspace however, much interest is currently being expressed by Caribbean and foreign investors in the development of industrial estates which would lease and/or sell floorspace and other facilities to industrialists. RDO/C financed analysis of the feasibility of private industrial estate development and operation has indicated strong potential throughout the region. Further RDO/C contracted efforts have developed a specific private industrial estate development proposal in St. Lucia which will require approximately $3.4 million in financing under IPIP. Specific RDO/C financed and other private efforts are currenly underway to develop similar projects in St. Kitts, Dominica, Antigua and Grenada.

Specific investors in St. Kitts and Dominica have begun negotiations with the governments and local banks for developments which will require an estimated $2.3 million in IPIP financing. Initial indications from our Antiguan investor suggest a minimum financing requirement of approximately $1 million. Demand for IPIP financing in Grenada is expected to be substantial as infrastructural, political and other circumstances are improved.

While the quality of expertise in development and management of industrial estates will vary among IPIP borrowers, it is anticipated that the process of commercial bank assessment of proposals for their bankability will serve to maintain satisfactorily high standards. Institutional capability in the region and foreign private sector is, therefore determined to be adequate for successful IPIP implementation.

E. Social Analysis

1. Socio-Cultural Context

Throughout the Eastern Caribbean the problem of providing adequate employment opportunities for the labor force has moved into a very critical stage. The "baby boom" of the 1960's and 1970's will result in large increases in persons entering the labor force from now through the early 1990's. Between 1980 and 1990 an estimated 29,000 new jobs need to be created simply to maintain unemployment levels of 15%. As post-plantation economies faced with a stagnant agriculture sector, an inadequate fiscal base and growing trade deficits, creation of local capital formation and export production are key to maintaining social harmony and economic solvency. All the OECS States have given growth and expansion of the manufacturing sector a high priority. Participation in the labor intensive stages of the production process of the developed world and stimulating the growth of the local private sector are important development strategies. As such, there has been significant growth in the importance of the manufacturing sector in all Eastern Caribbean Countries. The manufacturing sector employs 18% of the labor force in St. Kitts, 10.9% in St. Lucia and 11.7% in St. Vincent, indicating that significant shifts in employment patterns have already taken place.

This project will inject much needed capital and provide opportunities for expanded local private sector growth necessary to long-term economic stability. This project will, in effect, accelerate a process already begun and take important steps toward alleviating serious unemployment as well as contributing to the large numbers of new jobs needed to keep pace with labor force entrants.

2. Direct Benefits

Data indicate that in the Eastern Caribbean as elsewhere in the developing world a high percentage of the manufacturing labor force, particularly in export industries, are women. This is of particular relevance in the Eastern Caribbean where such a high percentage of households are female-headed. Approximately 75% of all households in OECS States are female-headed, yet women suffer higher unemployment levels than men. For most women, work has been unstable and seasonal; women dominate in the agricultural and tourist sectors, as well as the informal sector and domestic service. For those women with primary responsibility for up to four to five dependents, opportunities for employment in the manufacturing sector are seen as highly desirable. While this will result in a movement of labor away from agriculture, for the least skilled this process is already irreversible and even neccesary.

3. Wages

Studies have shown that wages paid by enclave industries compare favorably with local wage rates, and in addition, bring much needed foreign exchange into the country. Far from being exploitative, wage rates paid by industry tend to raise the standard of wages throughout the economy.

4. Transfer of Technology and Skills

Increased local participation in the production process via joint ventures will result in the long run in the transfer of technology. Immediately there will be positive transfer of skills. An important feature of industrialization is the organization and arrangement of the work day and the work table. Learning to work to meet production deadlines is transferable from one area of the industrial sector to another. Expansion of industrial sites in conjunction with programs in private sector training and human resources development will go a long way in removing important constraints to LDC development.

5. Improved Social/Industrial Environment

An important component of the project is the provision to include related infrastructure. Unreliable power, water and waste disposal and poor access roads not only limit industrial investment, but they impact negatively on the social environment and employees. Under the present USAID-CDB industrial site program funding was provided solely for factory shells; related responsibility of infrastructure and maintenance was the responsibility of host governments. Full compliance with CDB statutes regarding maintenance, provision of employee accommodation, landscaping and safety standards has proven difficult in some instances largely due to serious cash flow and management problems.

Having observed these constraints, the present project promises to address these problems by introducing improved management of industrial facilities, resulting in enhanced awareness of the importance of maintaining a good working environment and employee amenties such as:

- Proper sanitary facilities;
- Landscaping;
- Access roads to facilitate transport to and from site;
- Day care facilities and clinics on large industrial estates which employ mainly women;
- Enforcing safety and health standards.