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**UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D. C. 20523**

CARIBBEAN REGIONAL

PROJECT PAPER

PUBLIC MANAGEMENT AND POLICY PLANNING

AID/LAC/P-227

Project Number: 538-0096

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PROJECT DATA SHEET

1. TRANSACTION CODE

A = Add
 C = Change
 D = Delete

Amendment Number

DOCUMENT CODE

3

2. COUNTRY/ENTITY

Regional Development Office/Caribbean

3. PROJECT NUMBER

538-0096

4. BUREAU/OFFICE

LAC, RDO/C

05

5. PROJECT TITLE (maximum 40 characters)

PUBLIC MANAGEMENT AND POLICY PLANNING

6. PROJECT ASSISTANCE COMPLETION DATE (PACD)

MM DD YY
09 30 88

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

A. Initial FY 85 B. Quarter 3 C. Final FY 86

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

A. FUNDING SOURCE	FIRST FY 85			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant)	(4,500)	(-0-)	(4,500)	(8,000)	(-0-)	(8,000)
(Loan)	()	()	()	()	()	()
Other U.S.						
1.						
2.						
Host Country						
Other Donor(s)						
TOTALS	4,500	-0-	4,500	8,000	-0-	8,000

9. SCHEDULE OF AID FUNDING (\$000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) ESF	660	930		-0-	-0-	8,000	-0-	8,000	-0-
(2)									
(3)									
(4)									
TOTALS				-0-	-0-	8,000	-0-	8,000	-0-

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

720 840 960

11. SECONDARY PURPOSE CODES

901

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

A. Code

B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

To develop improved economic policies by providing technical assistance to participating Eastern Caribbean LDC's and Regional organizations; and, in the process, seek to improve, where practical, their capabilities in policy analysis, decision making, and policy implementation.

14. SCHEDULED EVALUATIONS

Interim MM YY MM YY Final MM YY
1 2 8 6 1 2 8 7

15. SOURCE/ORIGIN OF GOODS AND SERVICES

000 941 Local Other (Specify)

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

17. APPROVED BY

Signature

Title

James S. Holtaway
Mission Director

Date Signed

MM DD YY
04 11 85

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION

MM DD YY

PROJECT AUTHORIZATION

Name of Country: Caribbean Regional
Name of Project: Public Management and Policy Planning
Number of Project: 538-0096

1. Pursuant to Section 531 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Public Management and Policy Planning Project for the Eastern Caribbean involving planned obligations not to exceed Eight Million United States Dollars (\$8,000,000) in grant Economic Support Fund monies, subject to the availability of funds in accordance with A.I.D. OYB/allotment process, to help finance the foreign exchange and local currency costs of the project. The planned life of the project is expected to extend to September 30, 1988, with a possible extension of two years.

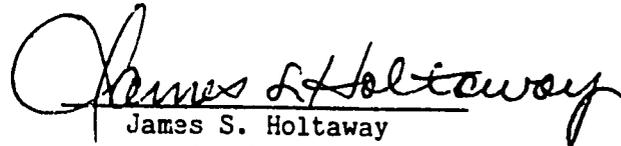
2. The Project is designed to assist participating governments and Regional organizations in the Eastern Caribbean to develop improved economic policies by providing direct assistance; and, in the process, seek to improve, where practical, capabilities in policy analysis, decision-making, and policy implementation. The Project will include, but not be limited to, (a) a primary component involving the conduct of a number of subactivities and (b) a fiscal reform component. The Project will be implemented by organizations to be based in Grenada and Antigua or other suitable locations.

3. Subject to the conditions set forth below, I hereby authorize the initiation of negotiations with the implementing and evaluating organizations by the officer to whom such authority has been delegated in accordance with A.I.D. regulations and Delegations of Authority.

A. Prior to execution of a contract for the Primary Component of the Project A.I.D. shall, except as A.I.D. may otherwise determine, receive, in form and substance satisfactory to A.I.D., (1) formal response from the Organization of Eastern Caribbean States (OECS) regarding the A.I.D. request that the OECS provide office space for the Primary Component contractor, (2) acknowledgement by the Government of Antigua and Barbuda that the activities and persons funded by the Project will receive the treatment accorded to A.I.D. economic assistance activities pursuant to the Bilateral Agreement signed by the Government of Antigua and Barbuda and the United States Government on June 17, , 1983 and (3) evidence from the OECS that the participating countries have been fully informed of the nature of the Project's Primary Component.

B. Prior to execution of a contract for the financial component of the Project, A.I.D. shall, except as A.I.D. may otherwise determine, receive from the Government of Grenada (1) an acknowledgement that all activities and persons funded to carry out the component will receive the full cooperation of the Government in accordance with the Bilateral Agreement signed by the Government of Grenada and the United States Government on May 7, 1984, and (2) the agreement of the Government of Grenada to the scope of work of the contract.

C. Prior to commencement of work under any particular subactivity under the Primary Component of the Project, A.I.D. shall, except as A.I.D. may otherwise determine, receive an acknowledgement from the recipient country that the country will (1) cooperate with the contract team to carry out the agreed upon subactivity and to achieve the maximum beneficial effect of the technical services and (2) accord treatment to persons carrying out the activity in accordance with the economic assistance bilateral agreement of the participating country. In the case of subactivities involving Regional organizations rather than countries, A.I.D. shall, except as A.I.D. may otherwise determine, receive acknowledgement from the recipient organization that the organization will cooperate with the contract team to carry out the agreed upon subactivity and to achieve maximum beneficial effect of the technical services.



James S. Holtaway
Mission Director
Regional Development
Office/Caribbean

April 11, 1985
Date

^{MGH}
Drafted by: CPO:MGHuffman:of:03/27/85

Clearances

C/CPO:JStephenson	(In Draft):Date:03/26/85
C/DR:POrr	<u>POrr</u> :Date:3/28/85
PROG/ECON:RPhillips	<u>RPhillips</u> :Date:28 March 85
CONT:RWarin	<u>RWarin</u> :Date:3/29/85
PRM:CCoulter	<u>CCoulter</u> :Date:03/20/85
RCO:SHeishman	<u>SHeishman</u> :Date:3/28/85
D/DIR:TBrown	<u>TBrown</u> :Date:3/29/85

PUBLIC MANAGEMENT AND POLICY PLANNING PROJECT

PROJECT PAPER

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LIST OF ACRONYMS

AID	Agency for International Development
CARICAD	Caribbean Centre for Development Administration
CDB	Caribbean Development Bank
EAS	Economic Affairs Secretariat (of the OECS)
EEPA	Employment and Enterprise Policy Analysis Project
ESF	Economic Support Fund
GOAB	Government of Antigua and Barbuda
GOB	Government of Barbados
GOCD	Government of the Commonwealth of Dominica
GOG	Government of Grenada
GOM	Government of Montserrat
GOSCN	Government of St. Christopher and Nevis
GOSL	Government of St. Lucia
GOSVG	Government of St. Vincent and the Grenadines
IARM	Inter-Agency Resident Mission
IBRD	World Bank
IMF	International Monetary Fund
LDC	Less Developed Countries
OECS	Organization of Eastern Caribbean States
PDAP	Project Development Assistance Project
PID	Project Identification Document
PMPP	Public Management and Policy Planning Project
PP	Project Paper
RDO/C	Regional Development Office/Caribbean
RDSS	Regional Development Strategy Statement
RDT	Regional Development Training Project
UN	United Nations
UNDP	United Nations Development Program
USG	United States Government

NB: Throughout this document masculine pronouns are used. This was done for convenience and ease of reading and by no means reflects a bias for or against a particular gender.

SUMMARY AND RECOMMENDATION

The Regional Development Office/Caribbean (RDO/C) recommends the authorization of the Public Management and Policy Planning Project in the amount of \$8,000,000 in grant Economic Support Funds (ESF) over the period up to September 30, 1988, with a possible extension of two years.

This project will be implemented by two U.S. organizations selected through a competitive process to provide assistance to eligible Eastern Caribbean LDC's and Regional organizations. No formal bilateral Grant Agreements will be involved.

The purpose of the project is to develop improved economic policies by providing technical assistance to participating Eastern Caribbean countries and Regional organizations; and, in the process, seek to improve, where practical, their capabilities in policy analysis, decision-making, and policy implementation. The individual countries that will be eligible for assistance by this project on a bilateral basis are the seven English-speaking member states of the organization of Eastern Caribbean States (OECS). They are: Antigua/Barbuda, Dominica, Grenada, Montserrat, St. Christopher/Nevis, St. Lucia, and St. Vincent and the Grenadines. Barbados, which is at a more advanced stage of development, will be eligible for assistance only on an exception basis. When appropriate, assistance may also be provided to Regional organizations to analyze policies of concern to a group of eligible countries.

The public sectors in the Eastern Caribbean lack sufficient capability for policy analysis in key strategic development areas and are frequently unable to effectively implement policy decisions that are made. In general, it may be said that the Eastern Caribbean LDC governments suffer from overworked top managers and inadequately trained lower level managers. This constrains their ability to conduct meaningful policy analyses and implement policy decisions. The costs and benefits of alternative policies are often not fully known.

The impetus for the project results from repeated requests from OECS member governments directly to the U.S. Government for technical assistance to deal with immediate issues or problems in the areas of economic policy analysis/implementation, development planning, and financial management. AID, in the past, has not been able to respond to these requests quickly enough for lack of an appropriate mechanism. The subject project is intended to be such a project mechanism. The project has two components: (1) a primary component, and (2) a specialized fiscal reform component. For each component, AID will enter into a direct contract with a U.S. organization for the provision of technical services, directly-related training, and the procurement of a limited

amount of electronic data processing equipment (micro-computers and related software). The contractor for the primary component will be located in Antigua at the headquarters of the Economic Affairs Secretariat of the OECS and will perform work with participating OECS countries and Regional organizations. A system for the development and approval of individual requests for technical assistance provides for specific identification of policy linkages of each subcomponent activity prior to its approval. The fiscal reform component is specifically targeted for Grenada due to the comprehensive fiscal program that is underway there. The contractor for this component will therefore be located in Grenada.

It is intended and expected that the project will produce policy discussions with national leaders; reports that analyze policy options and recommended changes; policy changes that are carried through to the implementation stage; and the introduction of new systems, procedures, laws, and regulations.

A summary budget can be presented as follows:

	<u>Life of Project</u> (\$US 000's)
Technical Assistance	5,625
Operational Support	1,150
Commodities	675
Training	450
Evaluations	<u>100</u>
	<u>8,000</u>

The Project Identification Document (PID) for the project was reviewed and approved in AID/Washington (AID/W) on July 18, 1984. The review surfaced three issues (See Annex F) that have been addressed in this Project Paper (PP). The issues of private sector input and the relationship with the AID Employment and Enterprise Policy Analysis Project are addressed in the section on Relationship to Other AID Projects. The issue concerning the project's involvement with the Caribbean Centre for Development Administration (CARICAD) is no longer relevant. The role of CARICAD has been reduced to that of a potential subcontractor for discrete activities.

I. PROJECT RATIONALE AND DESCRIPTION

A. Background

The individual countries that will be assisted by this project on a bilateral basis are the seven English speaking member states of the Organization of Eastern Caribbean States (OECS). They are: Antigua/Barbuda, Dominica, Grenada, Montserrat, St. Christopher/Nevis, St. Lucia and St. Vincent and the Grenadines^{1/}. While they are politically small independent units separated by the Caribbean Sea, they comprise a cultural, political, and economic region with many common problems and characteristics.

1. The Overall Setting

Of the seven less developed countries (LDC's) that comprise the membership of the OECS, one - Montserrat - is a classic crown colony, and the remaining six are independent nation states. Their independence is relatively new, ranging from 1974 for Grenada to 1983 for St. Christopher/Nevis. They share a common history, language and culture within the Commonwealth Caribbean and have a strong political and economic affinity. The seven also have a strong devotion to democracy and to peaceful political transition.

The most salient characteristic of these seven states is their small size. Their total combined population is about 540,000 (1982), with individual country populations ranging from under 13,000 in Montserrat to St. Lucia's 122,000. They are physically small, totalling only 1,118 square miles, and range in size from Montserrat's 77 square miles to Dominica's 288. Their economies are correspondingly small. Gross domestic product varies from \$32 million in Montserrat to \$137 million in St. Lucia. The total GDP for all seven is \$636 million, which pales in significance compared to the \$3,320 billion for the United States.

Small size is not only a salient characteristic, it is a dominating factor which shapes the political, economic and social structures and activities in each of the countries.

2. The Political Setting

Their colonial history and extremely small size have created a climate of political vulnerability. Political leaders, as a result, have often viewed themselves as relatively powerless to exert

^{1/} Barbados, which is at a more advanced stage of development, will be eligible for assistance under the project only on a case-by-case exception basis.

major influence in nation building and development. The vulnerability of leadership is also exacerbated by the fact that anonymity is difficult to achieve. Where an unpopular decision must be made in the national interest, many come to know who is responsible.

Decision-making also tends to be centralized among a few of the top leaders. This presents an obstacle to institution building by de-emphasizing systems of management.

A deeply embedded dependence on government and government solutions is a product of statism as well as small size. A view of the appropriate role and function of government is part of the British colonial heritage and also results from demands and pressures for new and improved services. What exists is a strong tendency for governments to provide services which in larger societies are often delivered by the private sector; and the ubiquitousness of government often stands in the way of private sector alternatives to development in both the social and the productive sectors.

3. The Social Setting

The quality of life in the Eastern Caribbean is above average for developing nations. The average life expectancy of around 60 years, compares favorably with many developing countries, as do literacy rates, which range around 80%. However the countries are plagued with high unemployment and underemployment and their economies are highly vulnerable to a potential erosion of the present standard of living.

Migration has been a way of life for a significant percentage of the population of the Eastern Caribbean and has produced structural changes in island societies leading to sex, age and skill imbalances. Historically, most migrants either permanently left the islands or only returned after long absences. The majority were male, who left behind parents and women of child bearing age. Since the 1960's patterns have changed. Women now have an equal propensity to migrate and it is the most skilled who feel compelled to do so.

Small size affects attitudes and behavior at all levels and throughout the social system. Choices are perceived as limited; alternatives few. Individuals are less likely to take risks, particularly in business ventures. The fact that people perceive that there are few alternatives conditions attitudes to work and employment. In the civil service, for example, where promotions and turnover are rare, motivation is low. This perception also leads to a high propensity to migrate as the only way to improve one's economic opportunity.

4. The Economic Setting

The Economy Overall

The small, open economies of the East Caribbean LDC's differ in terms of per capita GDP, with the low end being St. Vincent

(US\$680 in 1982) and the high being Antigua (US\$1776 in 1982). The savings rate in all of them is negative or only negligibly positive - a reflection of consumption levels that are close to or exceed domestic production. Remittances from abroad assume an important place, amounting to 12 percent of GDP in 1982. This source of savings notwithstanding, the countries depend heavily on external resources to finance investment in both the public and private sector.

The tradition of undiversified exports and the importance of tourism as a foreign exchange earner have rendered the economies vulnerable to external shocks. Also their small size has contributed to the relatively large size of government in these countries, partly because provision of a minimum level of services costs more per capita than it would in larger countries. Government participation in investment has grown, and is a driving factor in current account balance of payments deficits.

For various reasons, economic growth rates have fallen in the East Caribbean. The LDCs' growth rates, weighed by population, were steady at over 4.5 percent in 1980 and 1981, and dropped to 2.7 percent in 1982.

The Eastern Caribbean LDCs, were hard hit in the mid 1970s by dramatic oil price increases. Between that time and the late 1970s, most had successfully reduced balance of payment deficits. Early in the 1980s, however, balance of payments problems resurfaced.

In 1983, new difficulties arose, as Trinidad and Tobago introduced an import licensing scheme which severely disrupted intra-CARICOM trade and in Guyana, economic mismanagement resulted in inability to fulfill payment obligations to the CARICOM Multilateral Clearing Facility which was thus suspended in April 1983.

In addition, there has been difficulty associated with the linkages of Caribbean currencies to the U.S. dollar and the latter's appreciation. This has driven down export proceeds in local currency terms (notably, for bananas and sugar) and has had a strong negative effect on tourism from Western Europe, including the U.K., and Canada. The fact that most of the imports of Caribbean countries are from the U.S. has meant that the terms of trade have continued to decline. The World Bank estimated in early 1984 that exchange rates for the OECS states were overvalued by 20 - 25% with respect to their major trading partners. In the case of the OECS countries, with a common central bank, unanimous agreement is required for adjustment.

Current dislocation associated with constraints in intra-CARICOM trade and exchange rate problems will adversely affect the region's economic performance throughout the 1980's, even if they can be dealt with promptly. Structural reforms that (a) contribute to reducing the cost of energy; (b) begin to capitalize on the CBI and global

economic recovery; and (c) make inroads in expanding employment, productive investment, and exports are long range prospects. As a result, in short, the remainder of the present decade will see continuing balance of payments pressures.

Government Budgetary Pressures and Self Help Performance

A high priority -- and one which these states have begun to focus on -- is tax reform of existing tax systems, which were built up in piecemeal fashion, and in many ways, are not conducive to current development goals. Expenditures are a more difficult problem. Although there is a certain minimum size of the public sector, its size arguably has grown too fast. Public sector investment costs are currently -- and will probably continue to be -- financed by concessional external resources.

In this regard, Grenada offers a particularly prime example. As an outgrowth of decisions made by previous administrations, Grenada's fiscal system needs comprehensive reform. Taxes are too high and the Government share of the GDP too large to allow needed private sector investment, domestic and foreign. Fiscal reform needs to be comprehensive rather than ad hoc. In addition to tax reform, comprehensive fiscal reform must also entail improved expenditure control, budget planning, and deficit reduction.

By 1983, Grenada's recurrent expenditures accounted for one-fourth of the gross domestic product (GDP). This is a high percentage in comparison to similar economies. Capital spending has increased at an even faster rate than recurrent spending, and now represents 30 percent of the GDP.

Expenditure policies for now and the future will have to deal with an increasing pressure on the financial resources of the Grenada government. Unless expenditures are constrained, the government almost certainly will record deficits over the next year or so. One of the major reasons for this mounting pressure is that investment projects implemented over the past several years as well as those that are planned will require a large amount of resources for operating and maintenance expenditures. Another reason is the heavy spending on social services; almost one third of the budget is allocated to education and health. Finally, outstanding arrears of debt payments and contributions to international organizations should be paid shortly.

This points to the crucial importance and key role of improved planning and expenditure control. The pressures on the financial resources of the government can be minimized. With better budgetary planning and control, the recurrent cost implications of capital expenditures can be anticipated and that portion of the budget devoted to social welfare spending can be reduced. Any wastage also must be eliminated. Without improved planning and expenditure control,

Grenada will not be able to enjoy the fruits of fiscal reform, namely increased economic activity and the ensuing social benefits.

Grenada's tax system also has developed in an ad hoc manner, largely to meet the revenue demands of rising current expenditures. As in most cases where revenue generation is the driving force behind discretionary tax changes, other desirable attributes of the tax structure have been sacrificed: the present system is not hospitable to increased investment or risk-taking; it is unfair in taxing some types of purchases and income-generating activities (imported goods, exports, dividend income, wage and salary income) more heavily than others; and little public savings have been generated. All of these problems have been exacerbated by a steadily deteriorating quality of tax administration. The tax system must be rationalized in a comprehensive manner to promote investment, risk taking, and job creation.

The major structural problem with the Grenadian tax system is clear: the nominal tax rates are too high. The personal income tax reaches a marginal rate of 65 percent at about 3 times the average family income; the company tax rate is 55 percent; and the average tax rate on import value is 53 percent. In virtually every country where tax rates reach such high levels, pressure exists on the government to provide special exemptions, the rate of illegal evasion rises, smuggling and underdeclaration of import values increase, and elaborate schemes are hatched to avoid payment. Examples of the latter are the creation of quasi-governmental corporations and the payment of grocery allowances in lieu of wages. The net effect of these actions is to further narrow the tax base, force the nominal rates even higher, and bring even more pressure on the government to provide even more exemptions. This is the pattern that has developed in Grenada. BY 1984, the tax system had become a formidable obstacle to private sector-led development.

In short, the public sector dilemma in Grenada is similar to that in the other OECS member states: an increased tax burden would likely be a disincentive to the activities that the government hopes will generate future revenues. Resolution lies in (a) restructuring tax systems to provide the maximum incentives to private sector production and (b) reducing expenditures by raising government efficiency.

Revenue/GDP Ratio and National Savings Performance

Among the OECS LDCs, the tax effort is relatively strenuous. In fact, among the LDCs, government tax revenues average about 25% of total GDP, with progressive income taxes accounting for up to 40% of this amount. Both rates are high for countries at this level of development. A most significant source of revenue for these states, however, is indirect taxes, including import duties, which are regressive. They are contained in the prices of final products which are purchased by the rich and poor alike.

Consumption as a percent of GDP ranges as high as 115 percent. In no state does gross savings as a percent of GDP exceed 10 percent. Consumption has been sustained by high levels of private remittances from abroad while public sector investment has been dependent almost entirely on substantial external assistance. In many instances governments have not been able to cover their recurrent expenditures, let alone a portion of their capital budgets. The paucity of domestic savings in the Eastern Caribbean has impeded capital formation critical to the development effort.

Unemployment

A prestigious 1981 CARICOM study states that, "The gravity of the unemployment situation, especially as it affects young people, is the most explosive problem facing the region today". The study raises the specter of growing alienation among youth, crimes of violence and political restlessness, all readily predictable unless CARICOM countries improve their record of dealing with the problem of unemployment. The data available indicate that the unemployment rate in the 1970s and early 1980s ranged from 15 - 30%. However, decreases in net emigration, coupled with the rapid increases in entrants into the labor force, point to rapid increases in unemployment in the future, unless there is a concomitant increase in new job creation.

The problem of unemployment does not fall on the population equally. Unemployment in the region is strongly correlated with age, with unemployment levels of up to 50% for the 15 - 25 age group. An increasing number of youths leave school by age 15, and though they are not equipped with adequate job skills, nonetheless have high expectations for gainful employment. Generally throughout the region, countries face the paradox of a shortage of skilled labor in the midst of growing unemployment.

Throughout the Eastern Caribbean, female unemployment is 5% - 10% higher than for males. There also is a high proportion of female headed households (45%), which means that female unemployment is a serious social problem given the large numbers of children they support. However, women in Eastern Caribbean countries do have high rates of participation in the paid labor force in relation to many developing countries.

Wage rates are high when compared to other third world countries, although the trainability and consequent productivity of labor in the region compare favorably. Relatively influential labor unions and management and government often must struggle with the conflicting demands of management's need to minimize the cost of wages and the unions' desire to keep pace with inflation. Effective strategies for dealing with these conflicting demands will require further analysis on the part of governments dealing not only with their international competitiveness but with employment policies and incentive systems as part of development planning.

The Private Sector

Structural changes in these economies to provide the necessary employment opportunities are clearly a high priority. However, the fundamental reality, given already extreme government budgetary pressure, is that any significant increase in the rate at which labor can be absorbed by the region's economies will depend on new job creation by the private sector.

There is a general consensus that prospects for private sector growth in the region are positive. Owing in part to increasing U.S. influence, including the CBI, the political environment has become very positive and Caribbean political leaders are looking to the private sector as a principal source of economic expansion, including accelerated job creation.

B. The Policy Problem and the Opportunity

1. The Problem

This project will address a problem common to the public sectors of the Eastern Caribbean LDC's, lack of sufficient capability for policy analysis in key strategic development areas, and the frequent inability to effectively implement decisions that are made.

In general, it may be said that the Eastern Caribbean LDC governments are characterized by:

- a lack of trained personnel to prepare plans, conduct policy analyses, better inform the decision-making process, and carry out decisions effectively and efficiently once they are made.
- the inability to determine the full direct effect or the indirect effects or consequences of policies, programs and proposed changes, or even specific development projects.
- a virtual absence of coherent development planning, both short and long term.
- an inability to respond, except on an ad hoc basis, to donor demands and hence to deal with them on a more nearly coequal basis.
- the inability to calculate the probable costs and benefits of existing revenue structures and proposed changes in them.

- absence of adequate data bases and useable information systems.
- outmoded budgeting, accounting, expenditure control, and auditing systems.
- systems and approaches to customs administration, import and export licensing, trade regulation, taxation, and price controls that frequently inhibit or discourage private sector initiative.
- weak implementation capabilities in all public service areas owing to overworked top managers and inadequately trained and oriented middle and lower-level supervisors and technical personnel.

The public sectors of the Eastern Caribbean LDC's perform critical roles in their national economies, but because of the problems cited above, they are insufficiently responsive to the increasingly complex demands of those economies in such areas as employment, production, international trade, local infrastructure, and fiscal and financial management. Despite some excellent leadership and technical talent, the governments lack both the depth of analytical capability to translate economic and social requirements into well-articulated public policies and the depth of management capabilities to implement key policies promptly and monitor progress toward achievement of specific objectives. In no area does this lack have more adverse developmental consequences than in the finance and planning units.

The small size of the countries is reflected in their public sector staffs, which range from 700 to 2,500 people. (Dominica, in the middle of the population range, has an Inland Revenue Department with a total staff of 24 people of all ranks.) This smallness in size is in part an advantage, for it creates the potential for greater ease of managerial control and flexibility which are lacking in larger systems. Furthermore, public sectors of this magnitude constitute medium-sized organizations where the information necessary to plan organizational change is at least digestible and the change efforts are easily monitored.

Smallness is also part of the problem, for each mini state must create its own policies and programs and manage a large number of functions and relationships without the opportunity to draw specialized professional and technical talent from a large and diverse population. Also, economies of scale are often unattainable.

The governments of these countries are facing new responsibilities for social and economic development. The assumption of these responsibilities and the countries increasing involvement in a movement of regional cooperation, especially in the areas of trade,

transport, and development banking, have resulted in a substantial expansion of their public sectors.

In this difficult situation, public service personnel are being required more and more to devise measures for advising, facilitating and stimulating the private sector and, in addition, to formulate schemes for joint public and private participation in economic activities. Such measures have very important tax, revenue, and budgetary implications that require extensive policy analysis for which the governments are ill or unequipped to undertake.

With the burgeoning of government activities, the increasing complexity of decision making, and the widening of the range and multi-dimensional nature of projects, the countries are faced with new and considerably increased requirements for the effective functioning of public sector organizations, particularly those in the financial and planning areas, and they find themselves unable to adequately respond.

2. The Longer-Term Response

The problems discussed above are pervasive and systemic. If the less developed countries of the Eastern Caribbean are to achieve independent sustained economic growth to meet the aspirations of their citizens, and thus to survive politically and democratically, then lasting solutions will have to be found. This will require the attraction and retention of more highly qualified personnel; the training and upgrading of existing personnel, especially at the critical mid-management level; the modernization of traditional, legally bound and inflexible administrative structures and systems; the installation of new management systems where none exist; and the creation of a basic capacity to do coherent economic development planning.

Because these problems are pervasive and systemic, lasting solutions will not come easily or quickly. They require institution building programs of training and technical and management assistance that will take five to ten years, and sometimes longer, to produce results in terms of indigenous regional and national capacities to conduct effective policy analysis, to develop coherent development plans, and to effectively implement policies and plans that are adopted.

Fortunately, considerable work, largely regional in nature, has been started to address these underlying needs and to effect the longer term changes that are needed. For example:

- the OECS has approved an expansion of the role of its Economic Affairs Secretariat from functions related to trade, commercial policy, and common market affairs to include the creation of a pool of experts who would provide advisory assistance more

- directly related to the individual interests of the member governments in policy planning and implementation. During the coming year the Secretariat will concentrate its training activities more on a specialized program of training for the top and middle level public sector personnel in the areas of tax administration, public sector financial management, and fiscal policy and planning.
- Under the supervision of the World Bank, the Inter-Agency Resident Mission (IARM) is providing direct advisory assistance in information and statistical systems, budgeting and project implementation. In addition, one of the ultimate objectives of the IARM is to assist the Economic Secretariat of the OECS and the Caribbean Development Bank (CDB) to improve their capacities to provide similar assistance to the LDC's in the future.
- The CDB itself is working to strengthen the institutional components of the OECS states, primarily by working with the National Development Finance Corporations. The Bank also offers training in project analysis, implementation, and design.
- The Caribbean Centre for Development Administration (CARICAD) has been established to improve the administrative capability and policy decision making capacity of the countries in the English-speaking Caribbean through management development, training programs, and active research.

3. The Present Opportunity

In terms of this project, the salient feature of the above activities is that they are by definition, long term. Institutions are not built quickly and organizational change will take time, even in these small nations. The improved financial management, policy analysis, and decisions which should flow from the changes will take even longer. But the present policy problems will not wait for this change process to occur. The PMPP project will provide contract technical assistance to address immediate policy-related needs during the period of initial regional institution building. The project will be able to concentrate resources and focus on policy areas to a much higher degree than is presently possible by the regional institutions. The reality is that decisions will either be made with the support of contract assistance and careful analysis, they will be made more on intuition, or the problem

will be unresolved. For example, officials in two countries have specifically requested assistance in conducting comprehensive tax structure assessments. Providing such assistance would afford a direct input to tax policy decisions that are fundamental to development and the promotion of private enterprise. Without it any decisions that are made will continue to be piecemeal ones.

In another instance a country's development program is a collection of inadequately coordinated projects. Moreover, the country's top officials have no way of knowing the current status or expected progress of the projects they have. The country has requested help in creating a system for monitoring project implementation. While not directly connected to a specific policy area, this longer term assistance would provide the essential first step to the development of a more coordinated approach to a development program for the country. Moreover, the advisor would be working directly with the country's chief planner and would have access to and frequent contacts with the Prime Minister. Opportunities to do policy analyses or advise on policy issues, either directly or by calling in outside help, will inevitably arise.

In no country is the present opportunity more apparent than in Grenada. Due to past abuses, the GOG has recognized that the entire fiscal system needs reform. Such reform will need to be comprehensive and should have far reaching impact on Grenada's future economic viability.

C. The Project Strategy

If improved development policy is to be brought about, finance and planning are the most strategic points of entry. They are also the points of most significant interface between political and technocratic interests. If most or many of the financial management and policy deficiencies noted earlier could be overcome, the governments would not only be in far better position to interface supportively with private sector development leaders, they would be on the way to creating more viable and self-sufficient economies. For these reasons, the strategy of the project is to concentrate in the areas of economic policy analysis, development planning, and financial management.

In these key areas the objective of this project is to take advantage of near term (over the next 3-1/2 years) opportunities to provide direct assistance in policy analysis, decision making, and, where appropriate, policy implementation. The assistance will be provided on a bilateral basis, in the form of discrete subproject activities to the seven less developed countries that comprise the membership of the OECS. The project will seek targets of opportunity where individual countries need assistance in the areas of financial management, economic planning, or fiscal policy.

The work involved will often be politically sensitive, especially in these small island states. The project is not intended to take the place of the continuing official policy discussions between the United States and the governments of the project's client states; it will provide a resource that will contribute to the policy dialogue process. This link will result from the nature of the advisory assistance that is provided, from the Mission's oversight of the project, the subproject appraisal process, and the continuing contact between the project management and other project advisors and members of the Mission staff. During the life of the project priority will be given to assistance on policy issues that are of particular importance to A.I.D. Thus, for example, assistance on the issue of parastatal divestiture would take precedence over assistance on a policy issue of less direct U.S. concern.

The project's strategy then is (1) to identify targets of opportunity where OECS countries need and desire assistance with analysis and/or implementation of specific policy matters, and (2) to be able to respond very quickly in providing the assistance needed. However, not all opportunities will be directly linked to a specific issue or policy decision. There will be instances where a country will need assistance that is more indirectly linked to policy decisions (the need for a project implementation system cited above is an example of this). This type of assistance will be provided where the potential links to policy decisions can be identified and where it will provide access for the project and the Project Director to the key decision makers and the policy process in the country involved.

The methodology of responding rapidly and effectively to requests for assistance on specific policy issues and policy related systems should produce the following results:

- It will improve the quality of the policy decisions in the individual countries and the implementation of those decisions when such assistance is needed.
- It will identify opportunities for policy discussions between the Mission and the individual countries (sometimes using the results of analysis conducted with Regional organizations).
- It will frequently improve the indigenous capability of the client countries to do effective policy analysis and to manage the implementation of those decisions.

To achieve this objective, the project has the following goal and purpose:

Goal: To improve resource management in the Eastern Caribbean, and thus to promote economic growth and stability.

Purpose: To develop improved economic policies by providing technical assistance to participating Eastern Caribbean LDC's and Regional organizations; and, in the process, seek to improve, where practical, their capabilities in policy analysis, decision making, and policy implementation.

D. Relationship to AID and Mission Strategy

1. A.I.D. Strategy

The A.I.D. policy paper, Approaches to the Policy Dialogue, states that:

"The soundness of domestic economic and social policies is in general the dominant long term influence on development ... economic assistance in support of ill-conceived policies would be a poor investment indeed."

The paper goes on to identify internal political and social conditions in the separate countries, including economic instability and administrative incapacity, as key limitations to effective policy dialogue. In addressing directly the problem of administrative incapacity, and indirectly, through better policies, economic instability, this project will specifically support one of A.I.D.'s four major areas of concentration. This is particularly true because administrative incapacity is a more severe limitation to effective policy dialogue with the new Eastern Caribbean LDC's than it is in many other less developing countries.

The project will be seeking to improve the quality of decision making in countries where the political climate is favorable to the growth of private enterprise. It should support AID's major policy thrust in this area also.

2. Mission Strategy

One of the aims of the Regional Development Strategy Statement (the RDSS) is to encourage the economic structural adjustments necessary to achieve longer term viability and strengthening the national institutions needed to implement reforms. This project is intended not only to encourage economic structural adjustments, but to promote them and to help improve the quality of decisions by providing the underlying policy analysis that is essential to sound decision making. Where possible, and where essential to its policy purpose, the project will also improve the countries capabilities to implement reforms, although the major burden for this longer range institution building effort will remain with the regional organizations and other AID-funded assistance.

The project meets the general criteria in the AID Regional Development Strategy Statement (RDSS) that govern the consideration and development of RDO/C assistance programs and projects:

- It is designed to have an impact in the priority areas of policy analysis, economic planning, and financial management within a relatively short period of time.
- It is geared to addressing key development constraints in overall priority areas and is intended to address principal policy changes needed to bring about increased productivity and employment generation.
- It should help stimulate the growth and expansion of private sector activities.
- It will not create a management or financial burden on the public sectors, as counterparts will be drawn from within the existing public services.
- It will not duplicate or compete with activities of Caribbean regional institutions. Indeed, it will complement and enhance them.

Bilateral ESF assistance to the OECS Governments is seen as a fundamental element in U.S. political support for those newly independent nations. The Governments are pursuing development policies based largely on free enterprise led growth. This project is attempting to set the stage for that growth by addressing key economic policy issues that are often constraints. By responding to this development priority, A.I.D. will be underscoring support for democratic policies and free enterprise led growth.

Finally, this project, operating at the macro level, will reinforce RDO/C's sectoral projects and programs by improving the overall policy framework within which they must operate, and by improving the quality of specific policy decisions or reforms that may directly impact on one or several of them.

E. Project Description

1. General

The project has two components: (a) a primary component and (b) a specialized fiscal reform component. For each component, AID will enter into a direct contract with a U.S. organization for the provision of technical services, directly-related training, and the procurement of a limited amount of electronic data processing equipment (micro-computers and related software). These services and goods will be

available on a bilateral basis to Antigua/Barbuda, Dominica, Grenada, St. Lucia, St. Kitts/Nevis, St. Vincent and the Grenadines, Montserrat, and, on an exception case-by-case basis, Barbados. Occasionally, assistance may also be provided to Regional organizations to analyze policies of concern to a group of eligible countries.

Subcomponent activities will be carried out only under the primary component. The only activity under the fiscal reform component is the specialized, comprehensive fiscal reform program for Grenada. The subcomponent activities for the primary component, at the time of drafting this Project Paper, can be classified into three categories: (1) activities that can be sufficiently defined and that have been included in the project budget, (2) possible activities that have been identified in the course of project development that are not defined enough to justify including them in the project budget now, and (3) activities that will be identified and defined in the future.

The primary component contains three activities in category one and four in category two. The majority of the subcomponent activities are still undefined and therefore fall into category three. This is intentional so that this component will be able to respond to future requests for assistance. The Antigua headquarters operation will be where the presently underfined project activities will be developed and coordinated.

The project has a projected life of approximately 3 3/4 years from approval to the PACD of September 30, 1988. The project will cost an estimated \$8 million, of which most will be used to provide long and short-term technical assistance. The contract under the primary component is estimated to last 40 months and terminate at the PACD, while the contract under the fiscal reform component is projected to last two years from the time of mobilization which should start during the second quarter of calendar year 1985.

2. Project Components

(a) The Primary Component

(1) Organization

The primary component will operate under the direction of a full time resident Director. This position, and the capability of the person who fills it, are critical to the successful outcome of the component. The position will involve three distinct, but inter-related, set of duties and the Director will need to be qualified in all three. They are:

- Management of the overall component, including the selection and supervision of a steadily changing corps of technical advisors working in different countries on a variety of different tasks and having a variety of related disciplines.

- Problem definition through consultation with AID, host governments, and regional organizations.
- The direct provision of technical assistance, policy analysis, and advice on economic policy issues.

The Director will directly supervise two additional persons who will comprise the balance of the component's core staff. The first person, whose term will coincide with that of the Director, will be a locally-hired administrative officer. The occupant of the position will be responsible for all administration, including budget preparation, financial control, travel arrangements, local procurement, and related matters. Because of the volume of administrative work, this position is essential to preserve the Director's time for primary duties.

The second position is a professional one which will be under the direct supervision of the Director and will have three principal duties:

- To clearly define the requirements and develop work plans to meet specific technical assistance needs that are identified by the Director, and to determine the proper qualifications of the advisors to fulfill those requirements.
- to supervise other advisors when assigned to do so by the Director.
- to provide direct technical assistance in the field of the individual's competency. (Potential competencies include: development economics, public finance, financial management, project planning, business administration, and public administration.)

This position will be filled approximately six months after the Director's arrival. This time lag is essential to allow the Director time to establish initial relationships with the regional agencies and recipient governments, to determine the field of specialization with sufficient potential demand to provide the required advisory workload, and to re-affirm that the total workload justifies this third full time position. (Current projections indicate that the volume of separate advisory jobs will require this additional position. However, if the expected workload does not develop as rapidly as expected, then recruitment could be postponed and the need periodically re-assessed.)

(2) Location

The primary component Director and his staff will be based in Antigua, which has the requisite international air and other facilities to permit it to serve as the base. It is also a potential subcomponent activity nation. However, the selection of Antigua is dictated by the fact that the Inter-Agency Resident Mission (IARM) and the Economic Affairs Secretariat (EAS) of the organization of Eastern Caribbean States are both located there. As noted earlier, both the IARM and the EAS are concentrating in providing assistance of a longer-term nature in the fields in which this relatively short-term component will be specialized. Close cooperation and coordination between the primary component and the two institutions is required. They represent a body of expert knowledge and contacts that will allow this component's activities to start up quickly, they are a source of professional dialogue and consultation in a variety of professional disciplines that will demonstrably strengthen the level of professional competence of the component, and they can serve as a source of advice and direct assistance on specific subcomponent activities. Special care will be taken to assure that there is no duplication of effort by the component and the two institutions.

The component, while operating independently of the EAS under the direct supervision and control of the RDO/C, will be physically located in the EAS office building. The EAS is a nascent organization with a total staff of 40, of whom perhaps seven can be classified as qualified professionals. It has a dynamic and capable Director, and a potentially growing role in providing assistance to the member states in the fields of tax administration, public sector financial management, and fiscal policy and planning. A recent evaluation of the IARM, which includes a proposal for its eventual integration into the EAS, has recommended a substantial expansion of the EAS staff in support of its broader role in providing technical assistance to its member states. The report proposes expansion of the EAS staff by eight to ten professional positions for a period of two to three years, with four priority positions to be filled in 1985. The four are: a staff macroeconomist, a senior economic statistician, a senior project economist, and a staff project economist. The evaluation report also recommends an extension of IARM project and gradual integration of the IARM and EAS staffs. These recommendations are currently under study and a decision is expected by mid 1985. In the meantime, the UNDP has agreed to a two year extension of the present Senior Fiscal Economist at the EAS - an action strongly recommended in the evaluation report.

Co-location in the EAS offices will help to maximize effective interaction between the component and the Secretariat. It is expected that the primary component Director and the Director of the EAS will consult on work programs to ensure that they are complementary and not duplicating. Opportunities to utilize EAS professionals, on a subcontract basis, for subcomponent activities within

their area of competence will be sought. The EAS training staff can be utilized to provide specific training when training is determined to be essential to a given subcomponent activity. The Secretariat may also serve as a source for locating competent Caribbean experts to meet specific project needs, and possibly to employ them for the component.

Co-location will definitely benefit the component, but this will not be a one-way street. While strengthening the capabilities of the EAS is not a specific part of this component, it will be an almost inevitable result of the co-location and cooperation between the component and the EAS. The Director of the EAS will have a source to whom he can refer technical assistance needs that he cannot fill from within his own resources. The EAS staff will benefit from the variety of experts that will be work under the component and its training staff will be better utilized because additional resources will be available.

(3) Overall Method of Operation

The primary component will be operated by and through the resident Director. The basic concept is that the Director will build a growing network of contacts and confidence in the individual countries and the regional organizations that will open up increasing opportunities for direct technical advisory assistance on specific policy issues that are relevant to each country's economic and social development.

When this component first starts up, opportunities for direct assistance on specific policy issues or area are likely to be less than they will be as confidence and contacts grow. In the beginning - over perhaps the first year of operation - the opportunities to provide technical assistance will more often be ones which provide linkages and access to the policy decision making process. They probably will not be for the provision of direct assistance on a specific policy decision or area per se. An example is the potential assistance to Dominica in developing and implementing a development project monitoring system, which was discussed in Section I. B-3 above. Another example is the request from Antigua for assistance in automating their financial records. If carefully designed, this assistance could - primarily through the identification of policy makers' data needs and the identification of appropriate software - aid in the country's financial policy and planning processes.

The system for the development and approval of individual requests for technical assistance (subcomponent activities) is set forth in Section III, Implementation Plan. The system provides for specific identification of the policy linkages of each subcomponent activity prior to its approval. However, it is expected that the component will undertake a few activities that have no linkage to a specific policy area. Each such subcomponent will have to be justified on a case-by-case basis.

A second essential consideration in the development of specific subcomponent activities is that the potential for improving the host country's capabilities in the area of subcomponent activities must be specifically addressed. Where such improvement is possible the subcomponent activities will be designed and managed to achieve this purpose. But this is not primarily an institution building project whose principal purpose is to design and install management or implementation systems or to generally upgrade the performance of public sector staffs. Opportunities to increase capabilities as part of the component's core activities will be seized, but the absence of a capacity building opportunity will not be a ban to subcomponent activities. In some instances it will not be appropriate or feasible. In other instances capacity increases will be limited and potentially transient, but the subcomponent activity will be justified because of policy linkage grounds.

(4) The Development and Execution of Subcomponent Activities

The primary component Director, through discussions with the regional agencies, Mission personnel, and officials in the host countries will identify specific needs for policy related technical assistance (and where appropriate, related computer training, hardware, and software). The Director (or the resident technical specialist) will then develop the identified need into a specific subcomponent analysis which will be agreed to by the host government and reviewed and approved by AID, as set forth in the Implementation Plan. A short-term advisor will then be brought in who will work under the supervision of the Director. In many, perhaps most of the subcomponent activities, the advisory work will need to be divided into two separate phases. This will be necessary because assistance in the implementation of a policy is likely to be essential if a policy decision, once taken, is to be put into effect. The process might be as follows:

- An advisor spends four to six weeks in a country conducting an overall analysis of the existing government price control system and developing recommendations for change. The advisor then returns home.
- The Director, with Mission and other assistance, works with the host country to obtain decisions on the recommendations.
- Once decisions are made the advisor returns or a more appropriate new advisor is brought in to assist in key areas of implementation - in this instance perhaps drafting revisions of the price control legislation and preparing a monitoring system to judge the effects of the new policy.

(b) The Fiscal Reform Component

The contract Director for the fiscal reform component will be the resident Macroeconomic and Fiscal Advisor. He will be responsible for overall component coordination. Financial administration is expected to be handled by the home office. The Government of Grenada (GOG) and the Director will further define the component activities, coordinate all long and short-term technical assistance, and review and approve with the concurrence of USAID/Grenada, all work for Grenada (see Monitoring Plan). Regular liaison will be maintained with the Director-General of Finance in the GOG. The resident Fiscal Advisor will serve as Resident Director of the program office in Grenada.

A fiscal reform program office will be opened in Grenada and will serve a number of purposes. It will be the office for the resident Fiscal Advisor (Program Director/Team Leader), the other long-term advisors, and the long-term support staff. It will also provide a base from which the short-term consultants may work. Finally, it can serve as a kind of training center for fiscal administration, both formal classroom training and the "tutorial" type training that may come from working with a foreign expert.

(1) Long-Term Technical Assistance

The key to the success of the comprehensive fiscal reform effort in Grenada is the long-term technical assistance. The comprehensive fiscal reform program envisages that five (5) long-term technical advisors will be working in Grenada, including (a) a General Fiscal and Economic Advisor, (b) an Income Tax Administration Advisor, (c) a Customs Valuation and Exise Tax Advisor, (d) a Property Tax Valuation Advisor, and (e) a Budget Advisor.

The Fiscal and Economic Advisor will be in residence for 24 months and will coordinate the program and furnish advice of a macroeconomic nature to the Director-General of Finance, maintain liaison with USAID and other donors, and perhaps carry out one or more parts of the short-term technical assistance. The Ministry of Finance does not have access to economic advice and this advisor would furnish such assistance. The Fiscal Advisor will arrive in April, 1985 to begin his duties.

The Income Tax Administration Advisor will arrive in April or May to begin his work in assisting the revision of income tax assessments/collections and in training the income tax staff. There is much to be done by way of basic work, and certain improvements could be implemented early on in the program. A first task of the Income Tax Advisor would be to assess needs for administrative improvements and provide a timetable in which these improvements could be put in place. The Income Tax Advisor will also take on the early task of defining a comprehensive training program for the department and specifying a timetable for its completion.

The Customs and Excise Tax Advisor will focus on two potential areas for improved administration: revising the operating procedures in the Customs and Excise Department and the training of inspectors. The focus of both activities will be on improving the valuation of imported goods.

As in this case of income taxation, the administrative and procedural reforms as well as some of the basic training can begin immediately. A first task of the Customs Advisor will be to identify the timetable for implementation of the necessary reforms and a training plan for the department.

This advisor also will assist in the implementation of indirect tax revisions. The primary tasks will be to set up the administration for the consumption duty and initiate its assessment and collection. This will require the training of inspectors, the registration of all domestic firms, the establishment of a record keeping system, and the initiation of a taxpayer information program.

A Property Tax Advisor will remain in Grenada for 12 months. He will immediately begin developing a list of taxable properties on the island and will begin training local valuers for the job of appraising properties. By mid-summer, when the actual valuation gets under way, the advisor will be assisting in the implementation of a new tax structure. By the end of the twelve month period, the activity will have created an up-to-date valuation roll, and a trained staff capable of maintaining this roll.

The budget advisor will arrive in April or May, 1985, also for one year. He will examine a number of issues, including the recent cost implications of the GOG heavy capital spending, (b) the structuring of the various GOG ministries, (c) the introduction of user charges, (d) possibilities for improvements in budget formulation, and (e) an analysis of financial and auditing procedures. The advisor also will arrange for consultancy services to undertake efficiency analyses in selected GOG initiatives with an eye toward waste reduction.

Long Term Technical Assistance Requirements

<u>Duty</u>	<u>Person-Months</u>
Fiscal Advisor	24
Income Tax Administration Advisor	24
Customs and Excise Tax Advisor	24
Property Valuation Advisor	12
Budget Advisor	12
	<u>12</u>
TOTAL	96

(2) Short-Term Technical Assistance

A number of analyses of the Grenada fiscal structure may be required. The amount of time necessary for each analysis will vary, depending on the complexity of the topic. The detailed Terms of Reference and timing will be worked out with the Director General of Finance. Also, the exact number and scope of work for these analyses and data gathering efforts has yet to be finalized. These structural analyses conceivably could be broken into two categories: fiscal policy analyses and supporting data gathering and analyses.

(a) Fiscal Policy Analyses

Even after the GOG accepts a set of general principles to guide its fiscal policy reform, there are a great many policy questions to be resolved. For example, what is the "right" rate structure and set of base exclusions; how can tax, trade, and industrial policy fit together; what revenue loss and equity consequences must be adjusted for; how can a "new" property tax be designed; how should tourists be taxed; what expenditures can be curbed without affecting government operations adversely, etc. These issues require careful analysis before the comprehensive reform can be completed.

The goal of the policy analyses efforts, thus, will be to identify options for the redesign of the current fiscal system to be simpler, more easily administered, and more conducive to promoting private sector economic activity. On the expenditure side, budgetary procedures need to be thoroughly revamped, linkages established between the recurrent and investment budgets, and user charges considered. From a revenue standpoint, one approach to this goal is to move toward broader-based, flatter rate taxes with an emphasis on improved administration.

(b) Supporting Data Gathering and Analyses

Supporting studies are also important to formulation of a proper comprehensive fiscal reform. Again, it is difficult to specify the exact Terms of Reference at this point. These studies are required to place some bounds on the reform program which the GOG can put in place. One important area for data gathering and analysis is tax incidence, an analysis of who bears the burden of the present Grenadian tax system and how this would change in the aftermath of comprehensive reform.

3. Timeliness and Subcomponent Duration

A fundamental rationale for this project is the fact that policy-related technical assistance needs are perishable, and there is a consequent requirement for rapid response when such needs are identified. The project is designed to have the resources in place, in terms of core staff and funds to respond rapidly to these policy targets

of opportunity as soon as a need is identified. Without this ability to respond promptly, many opportunities will be lost. Also, while the overall need of these small island states for help is great, specific opportunities for policy interventions are likely to be limited because of: political considerations, limited absorptive capacity, the limited number of key decision makers, etc.

The specialized, comprehensive fiscal reform program for Grenada offers an excellent example of timeliness. Grenada has been implementing an innovative structural reform program. Reform already has been made in a number of areas, consisting of (a) revision of the investment code, (b) reduction of import licensing and monopolies, (c) divestiture of parastatal enterprise and agricultural lands, (d) reduction of price controls, (e) modification of the usury law, and (f) relaxation of foreign exchange controls. The country, however, has yet to make meaningful headway in the area of fiscal reform, and this program would assist Grenada's newly elected Government to address this problem.

While project activities under the fiscal reform component can be defined now and several activities under the primary component have already been identified, it is not possible to accurately forecast the specific types and durations of all the future subcomponent activities under the primary component. However, it appears reasonable to assume that in addition to the primary component contractor's core staff, there will probably be one short-term advisor working at any given time. If the duration of the average short-term assignment is four months, then there will be approximately 20 separate short-term subcomponent activities during the last three years of the project. If the duration of assignments is shorter and the opportunities are there, then these number of assignments might increase somewhat.

4. Commodities

The commodity funds included in the project are to be spent almost exclusively on computer hardware, software, and training. These funds are intended for discrete applications that relate directly to overall project tasks. In most cases, requests for computers should be a direct result of technical assistance provided by the project. So, for example, if the technicians provided to assist a country in the area of tax administration conclude that automatic data processing equipment would facilitate the work, they should develop a formal proposal for the needed equipment with their counterparts. The proposal should cover the following points:

- a detailed statement of what information need the equipment is intended to meet.
- detailed description of hardware and software required.

- a training plan that includes who will be trained, what training is needed, who will do the training, and what it will cost.
- the compatibility of the requested equipment with existing equipment and the country's future computer planning.
- where the equipment can be serviced.

It is anticipated that the fiscal reform component will require data processing equipment and that the cost of such equipment will be included in any cost proposals for the activity. Nonetheless, a request for the equipment incorporating the above points will have to be furnished to AID prior to release of funds for the equipment. Computer funds provided by this project are not to be used merely to support a country's overall computer development plan.

5. Training

The project will provide training usually in direct association with a subcomponent activity. It is expected that most of the training provided under this project will be associated with the primary component and be of the nature of in-country or in-region training provided by the EAS or CARICAD, CDB, etc. in the their respective areas of competency.

Emphasis in the EAS training program is being shifted to concentrate on training, primarily for mid-level managers, in the fields of tax administration, public sector financial management, and fiscal policy and planning. The Secretariat will also continue a program designed to assist the member states in developing lower level courses in these subject fields. Thus the EAS will be in a position to provide directly, or to assist recipient governments to provide, needed technical training in support of project activities. This training may be more generalized training, or it may be tailored to the activities' outputs, such as a new methodology for control of development projects. In contrast to the more technical, or subject-based training of the OECS, CARICAD's training focus is more process oriented. It will be used where the objective is to secure staff acceptance of proposed changes or where proposed changes require a more participatory style of operations or management. CARICAD's problem identification seminars may also be a useful device where a need exists to get the top level officials in a given country to focus on their priorities in terms of policy analysis.

In some instances - perhaps frequently - the complementary nature of the capabilities of the regional organizations will lead to jointly conducted training programs in support of subproject activities.

In any event, subcontracts directly with the appropriate organization for the training that is needed will be permitted, and funds will be available under this project to supplement EAS and CARICAD staffs competencies with consultant help when that is required.

When participant training abroad is required, the country request for the subcomponent will include a request for such training and identify the individual(s) to receive such training. It is not anticipated that the project will fund a large amount of participant training; however, a modest amount of funds have been included in the training line item for this purpose.

6. Relationship to Other AID Projects

As noted earlier, this project will reinforce the Mission's sectoral projects by improving the overall policy framework within which they operate and by improving specific policy decisions and reforms. It will also interact with other RDO/C projects. When other Mission projects identify macro financial or economic policies that impede or preclude development within the project's purpose, PMPP resources can be sought to try to get the host country to address the policy issue, and then to help them with it.

A good example of this interaction is the comprehensive fiscal reform program and the Economic Stabilization Grants for Grenada. One of the most significant reforms called for under these grants is the implementation of fiscal reforms. This project's fiscal reform component will furnish important assistance in this regard.

This project may identify sectoral-specific issues which are best addressed under other projects and which can be referred to them. The most likely case of this type of interface is with the Investment Promotion and Export Development (PDAP follow-on project (IPED). Training and technical assistance to the public sector under the IPED project are intended, among other things to provide:

- Advice regarding the formulation and management of public policy as it relates to local and foreign investment, foreign marketing, and related matters.
- Advice and technical inputs for the development and management of other public programming and policy areas such as vocational training, labor relations, and public services (e.g. public transportation, customs, etc.).

The potential interface between this more focussed policy advice and assistance and that of the PMPP project is clear. As policy issues arise which have a potential conflict between the two projects, the Mission will decide which project is to be assigned responsibility for the work.

Identification of potential conflicts and recommendations for assignment of responsibility will be the joint responsibility of the AID Project Managers for the two projects. The result will be a discrete assignment to the contractor under one project or the other, with costs charged to the responsible project. In no instance will a contractor under one project fund work being done by a contractor under another project.

Another AID project which has been identified as having a potential interface with this project is the Science and Technology Bureau's proposed worldwide project for Employment and Enterprise Policy Analysis (EEPA). The objective of the EEPA project is to foster reform of public policies in cooperating countries where this is needed (a) to achieve a more optimal use of labor and capital in production and (b) to realize the potential of small and medium scale enterprise in the development process.

Its objective in each aided country will be to foster the development of mechanisms to assure that the employment implications of proposed policy changes are routinely taken into consideration in public policy making. The project is intended both to create the required technical capacity to do this work and to provide direct assistance to individual countries. Initial definition/design consultancies and initial project-related policy analysis assistance will be funded primarily with central project funds. Assistance to strengthen policy analysis units, however, will be paid for with Mission funds. These are obvious areas of potential overlap between the EEPA project and the PMPP project. Because the PMPP project primary component contractor will be established within the region to provide a wide range of policy-related technical assistance, including that in the area of employment generation, first consideration will be given to the project contractors to provide any technical assistance. This is not to say that, in certain instances it might make sense to consider tapping the resources of the EEPA project when they would complement PMPP activities. Where this is the case and Mission funding is required, it will be made available in the form of a subcontract between the primary component contractor and the Harvard Institute for International Development, which is in charge of implementation for the EEPA project.

AID presently does provide assistance to the OECS/EAS through the Regional Development Training Project (RDT). The project aims at establishing a Public Service Training Program through the EAS. Initially training was to be provided to a broad spectrum of public service employees. As the AID project draws to an end (the PACD is September 30, 1985), the EAS has plans to scale back its training activities and concentrate future training efforts in the areas of tax administration, public sector financial management, and fiscal policy and planning. Because the RDT project will end soon after the PMPP primary component becomes operational, there will be little chance for a direct relationship between the two AID projects. However, the PMPP project will be able to draw upon and utilize the training competency that has

been created under the RDT project. The EAS'S new areas of training concentration fit nicely with the direction of the PMPP project.

The OECS/EAS is a young organization which has a staff of 40 with only seven or so qualified professionals. Attempts to increase the number of professionals and create a true "pool of experts" have been slow for financial reasons. The OECS member states have not been making their contributions to the EAS in a timely fashion. The result has been a weak organization not able to fulfill its mandate. There is, however, hope for the EAS. The September, 1984 evaluation of the Inter-Agency Resident Mission (IARM, see discussion below) recommends that the OECS take over certain of the IARM functions and that the donors who support the IARM begin to move that support to the EAS. Most donors have agreed in principal with the recommendation and have indicated that they would seriously consider financial assistance once a clearer proposal is established. Therefore, the future looks good for a strengthened EAS.

Another AID assisted project is the IARM project. AID contributed \$676,000 to Phase I with the other six donors supplying the remaining \$1,294,000. As pointed out in the September, 1984 evaluation of the IARM, there have been numerous start-up problems that have retarded the quick attainment of objectives. The overall objective is to increase the absorptive capacity of the Eastern Caribbean States, but to achieve this a number of operational functions were set out and assigned to the IARM. These are twelve in number:

(Macro Level)

- (1) Macroeconomic and development policy dialogue and assistance"
- (2) Improvement of statistical series and data processing.
- (3) Establishment of an external debt monitoring system.

(Project Level)

- (4) Sectoral Studies of the Eastern Caribbean economies.
- (5) Assistance in setting up Public Sector Investment Programs and strengthening national capacities in this area.
- (6) Establishing project monitoring systems in the countries"
- (7) Assistance in project execution including resolution of bottlenecks.

- (8) Provision of external technical assistance (outside consultants) as needed at all stages of the project process.
- (9) Coordination of development assistance from the country's standpoint.

(Other Functions)

- (10) Cooperation with regional institutions, particularly OECS, to assist them in their current program and future development.
- (11) Aid Coordination on the donor side.
- (12) Assessment of manpower needs in the region and assistance in providing training programs.

Although the IARM has achieved some results in each of these areas, most have been in categories, 2, 3, 5, 6, 8 and 9. Achievements in category 1, the area of concentration of the PMPP Project, have been less than AID had hoped. Some progress is expected in category 1 from now until the proposed termination date for the IARM under Phase II of December, 1986. During this period the IARM will be handing over responsibility for category 1 undertakings to the EAS, except those involving monetary and balance of payments policies which will probably go to the Eastern Caribbean Central Bank. The PMPP project will coordinate its activities with those efforts being made by the IARM and the EAS in category 1.

7. The Presently Proposed Activities

During the course of preparation of the PID and the Project Paper a number of visits were made to the OECS member states to discuss the concept of the project, the overall need for it, and potential areas of project activity. These visits demonstrated that top government officials recognize a clear need for this type of project; both in general, and in terms of specific potential activities in areas where they need and want help.

Subcomponent activities will be carried out only under the primary component. The only activity under the fiscal reform component is the specialized, comprehensive fiscal reform program for Grenada. The subcomponent activities for the primary component, at the time of drafting this Project Paper, can be classified into three categories: (1) activities that can be sufficiently defined and that have been included in the project budget, (2) possible activities that have been identified in the course of project development that are not defined enough to justify including them in the project budget now, and (3) activities that will be identified and defined in the future.

The primary component contains three activities in category one and four in category two. The majority of the subcomponent activities are still undefined and therefore fall into category three. This is intentional so that this component will be able to respond to future requests for assistance. The Antigua headquarters operation will be where the presently undefined project activities will be developed and coordinated.

There are three subcomponent activities that have been sufficiently defined for inclusion in the project budget.

- Technical assistance in the creation of a development budget monitoring system in Dominica, \$203,000. This would focus initially on the identification and monitoring of existing development projects. The assistance offers a unique entree and responds to separate but interrelated requests from the acting head of the Economic Development Unit and the Prime Minister.
- Tax administration assistance to Dominica, \$120,000. The purpose of the assistance is to improve the administration and collection of taxes - primarily income taxes - in Dominica. It would include two separate technical assistance assignments of 45 days each - one in field examination techniques and selection of returns and one on procedures for delinquent accounts - in the first year. Technical assistance in advanced examination techniques (21 days) would be provided in the second year. Funds would also provide 23 person weeks of training in the United States over the two year period and the purchase of a micro-computer and related software. Recent discussions with the Government of Dominica have revealed that it finds the magnitude of the above assistance to be inadequate. The recent loss of two senior individuals in the Inland Revenue Service may necessitate a more concentrated technical assistance effort and limit training to that that can be conducted in-country. A modification of this subcomponent of this nature will require a budget revision.

Tax administration assistance to St. Vincent, \$93,000. This assistance would be similar to that provided to Dominica, but the specialized areas to be covered by the technical assistance would be different. They would include a program for delinquent accounts, the establishment of a tax payers service program and advanced examination techniques. Similar training would be included, but no computer purchase is involved.

The four subcomponent activities that have been identified but need further development are as follows:

- Assistance to St. Lucia in providing policy makers in the Ministry of Finance and Planning with micro-processor hardware and software capabilities to enhance their development planning.

This opportunity needs to be discussed in more detail and very carefully defined to target it at the key policy areas in financial management and planning and to ensure that it does not merely provide lower level technical assistance in accounting as a part of St. Lucia's Government-wide data processing plan.

- Similar data processing assistance to the Ministry of Finance in Antigua. Definition is needed here to avoid being drawn into an activity which would require more commodity support than this project can provide and to insure that there is clear support for the activity at the political levels in the Government.
- There are two additional potential subcomponent activities that have surfaced during project development. They involve the conduct of overall assessments of the tax structures of Dominica and St. Lucia. These are clear requests for assistance in a key policy area that can be defined and filled quickly. Their further definition should be pursued soon after the contractor for the primary component becomes mobile.

As stated before, the only activity under the fiscal reform component will be the Grenada specialized, comprehensive fiscal reform program, \$2.7 million. It has been defined in detail previously in the Project Paper, but may be summarized as follows: It is intended to put in place fiscal systems in Grenada that accommodate growth led by increased private sector, domestic and foreign, investment, while taking into consideration equity. Under the package, a number of long-term advisors will be furnished as well as a series of structural analyses funded. The package also will provide monies for data processing equipment. The Government of Grenada already has requested assistance from the USG to carry out the program.

II. COST ESTIMATES AND FINANCIAL PLAN

A. Funding Level and Source

The total life-of-project costs will be \$8 million, all in ESF funds, of which AID will provide, subject to the availability of funds, by means of separate contracts with U.S. organizations. With the exception of money to fund the project evaluations, most all of the funds will be obligated against the two contracts, including funds for training, invitational travel, and commodity procurement. A modest amount of funds may be set aside to fund counterparts in participating countries or Regional organizations directly. This will be justified only where project activities are so demanding that the participating country or organization is unable to assign a counterpart for lack of capability or availability.

The funds will be obligated in two tranches in FY 1985 (\$4.5 million) and FY 1986 (\$3.5 million)"

B. Financial Plan

Since the project activities described in this paper are both planned and illustrative, the financial plan also necessarily includes planned and illustrative items. The summary budget is presented in Table II-1.

1. Primary Component

This component, which is scheduled for start-up on August 1, 1985, will initially have a core staff of two, a Director and an Administrative Officer. A second senior professional is budgeted for six months later. Office space and some supporting services will be provided by the Economic Affairs Secretariat of the OECS in Antigua. Two micro-computers which will be used in the management and the field work will be purchased.

A long-term planning advisor for Dominica has been budgeted. In addition, specific funds have been budgeted for training and commodities. This budget information, along with estimates for other project activities are set forth in Annex H. The Other Component Activities category includes funds for technical assistance assignments yet to be determined.

2. Fiscal Reform Component

The activity calls for the hiring of five long-term advisors, all of whom will reside in Grenada. A number of analyses designed to facilitate implementation of the reform program in Grenada also may be financed. Provided that appropriate documentation is

submitted, some monies also will be available for automatic data processing equipment. In addition, funds will be allotted for training. A fiscal reform program office will be set up in Grenada. AID will furnish office space and requisite support personnel, as well as fund housing and shipment of vehicles for the advisors. The GOG will not be required to furnish office space and requisite support personnel; such a requirement could delay initiation of the program which must begin as soon as possible to take advantage of the existing momentum for reform. Also, with the December 3 elections, a new administration has taken over. A detailed illustrative budget for this component is presented in Annex H.

C. Summary Budget Estimates

TABLE II-1

SUMMARY ILLUSTRATIVE BUDGET
(\$US)

FISCAL REFORM COMPONENT

Long-Term Technical Assistance	1,280,000
Program Management	555,000
Fiscal Reform Office	525,000
Short-Term Studies	305,000
Contingency	335,000
TOTAL	\$3,000,000

PRIMARY COMPONENT

Core Staff and Support	\$1,350,000
Anticipated Activities	415,000
Other Activities	2,100,000
Contingency (10%)	390,000
Inflation (6% compounded)	645,000
TOTAL	4,900,000

EVALUATIONS

TOTAL	100,000
GRAND TOTAL	<u><u>\$8,000,000</u></u>

TABLE II- 2

SUMMARY ILLUSTRATIVE INPUT BUDGET
(US)

Technical Assistance	5,625,000
Operational Support	1,150,000
Commodities	675,000
Training	450,000
Evaluations	<u>100,000</u>
TOTAL	<u><u>\$8,000,000</u></u>

III. IMPLEMENTATION PLAN

For the primary component, all activities are scheduled to take place over a period of 38 months from the date that the contractor is mobilized. The projected completion date is September 30, 1988, based upon a contractor mobilization in early August, 1985. However, the contract will specifically include the option of a two year extension of the component, if one is recommended as a result of the second evaluation. As for the fiscal reform component, contractor negotiations will be expedited. The target date for commencement of activities is mid-April, 1985. The component's duration will be two years. Evaluation of the program will take place at the same time as that for the primary component's first evaluation. Important implementation dates for each subcomponent are described below.

The contractors for each component will be responsible for all of the technical assistance and procurement. The team for the primary component will be led by a Director who will be based in Antigua at the Economic Affairs Secretariat (EAS) of the OECS. The fiscal reform component will be probably directed by the Grenada-based Fiscal Advisor. He will direct all of the component activities in close cooperation and coordination with the GOG. A project office for the fiscal reform component will be established in Grenada.

A. Primary Component

1. Developing the Work Program

An important initial task of the Director will be to develop a work program. A number of subcomponent requests have already been received by the AID Mission. Upon his arrival, the Director should immediately review these requests for possible project support. This means verifying that the proposed activities are still desired and needed. The Director should review the proposals with the requesting governments and organizations, the Inter-Agency Resident Mission (IARM), the EAS, and AID. If the response is positive, the subcomponent documentation described in Section 2 below will be prepared.

In addition to considering existing requests, the Director will immediately attempt to identify additional potential subcomponent activities. To insure coordination, avoid redundancy, and effectively target activities, the Director should start by meeting with the IARM and the OECS. Through these meetings, the Director should gain a clear understanding of the work programs of both organizations. In addition, the Director should get a country-by-country rundown of possible activities. Meetings with similar purposes should be held with the RDO/C.

This information should serve as the basis for visits to each of the OECS countries. The purpose of these visits would be to explain the project to appropriate government officials in these countries. Initially, the visits should focus on ministries of finance and planning, and the Prime Ministers' offices.

2. Documentation and Procedures Required for the Approval of Subcomponent Activities

To be considered for approval as a subcomponent, two documents must be prepared. The first (Request) is a letter asking for the assistance signed by an appropriate government official (or regional institution official). The letter should clearly but briefly describe what assistance is requested and what purpose it will serve. In the case of a request for technical assistance, it should specify where and with whom the technician(s) would work. It should also provide a work schedule for the proposed activity and what resource commitment the government (or regional institution) would make to the activity. In the case of a commodity assistance request, the above information should be provided, but in addition, the person to be trained in computer applications should be identified by name and title. The request will also list what the government (or regional institution) will provide the advisor (e.g. office space; secretarial help; a residential, multi-entry visa; exemption from taxes on income; exemption of import duties on household effects; etc.).

The second document (Subcomponent Analysis) would be prepared and submitted by the primary component Director. It would analyze the request from the standpoint of project objectives. It would set the work in the context of the policy analysis, decision making, and implementation cycle. More specifically, it would include:

- a justification of the direct assistance in terms of project focus including the goal and purpose of the subcomponent.
- a statement of who is supporting the request.
- a statement of whether the work is primarily filling a manpower gap or is intended to contribute to a realistic and sustainable effect to upgrade capabilities.
- a statement of counterpart availability and a recommendation of whether or not AID should consider directly funding to cost of a counterpart.
- a schedule and plan of action for getting necessary analytical work completed, with an identification and justification for any associated training or commodity procurement.
- a statement of the proposed qualifications of the individual who will do the technical work.

- a time frame for a policy decision regarding whether or not to go ahead with the changes recommended by the analysis.
- a schedule and plan of action for implementing the recommended changes.
- a statement regarding how the work could lead to a discussion of broader policy issues facing the recipient country(ies).
- a statement concerning how the work relates to similar work being contemplated or implemented by EAS, IARM, UNDP, CDB, or other donors.
- donor experience in doing this sort of work with the requesting government or regional institution.
- a detailed costing and time schedule for the work.
- A recommendation on whether or not to undertake the work.

These two documents should be submitted to the AID Project Manager. The AID Project Manager will discuss the subcomponent request with the Project Director and/or the government or institution concerned, as appropriate. He will draft an Action Memorandum to accompany the two documents and circulate the package for appropriate clearances before it goes to the Mission Director for approval/disapproval. During the clearance process, any of the clearing officers may question the subcomponent proposal and even call for a project committee meeting to formally review it. Any changes to the proposal will be made before the package is sent to the Mission Director. Upon approval/disapproval, the Project Manager will notify the government or institution and the contractor in writing. The letter to the contractor will specifically include an authorization to employ the resources requested to carry out the subcomponent activity.

Once a subcomponent is approved, any modifications will need to be approved by the AID Project Manager and any significant modifications will need to be approved in writing by AID. In this instance "significant" is defined as:

- a change in the goal or purpose of the subcomponent.
- an increase in the use of consultants of more than thirty calendar days.

- the use of subcontracts *not foreseen in the approved subcomponent activity proposal that exceed \$50,000.
- extra-regional travel not previously approved.
- a cost overrun for the subcomponent which exceeds 15% of budget estimates.

3. Implementation Schedule

The highlights in the project implementation schedule for the primary component are presented below. The major purpose of the first evaluation will be to provide a management tool. The second evaluation will be conducted to determine whether the project should be extended. If the decision to extend the project is taken, the project may be extended for up to two years (i.e. until 9/30/90).

April 1985	Project Paper is approved.
March 1985	Request for proposals issued.
July 1985	Contractor selection made.
August 1985	Contractor Project Director arrives in Antigua and Phase I begins.
October 1985	Evaluation team establishes base line data and evaluation criteria.
December 1986	First evaluation carried out.
December 1987	Second evaluation carried out.
September 1988	Project Activity is completed, or Phase II begins.

B. Fiscal Reform Component

Implementation arrangements for this Grenada activity can be outlined as follows. Both AID and the Government of Grenada recognize and appreciate the importance of speedy implementation of the fiscal reform technical assistance package. While initial results are anticipated by year-end 1985, some areas will take longer to address. Implementation of the various activities of the program must be coordinated with not only each other but also political developments in the country.

* AID must approve in writing all subcontracts, including the subcontract itself. This requirement may be waived, however, if AID approves the contractor's subcontracting procedures.

In any case, the major constraint to rapid implementation of the program is not the necessity to undertake any studies that may be required. Most studies can be undertaken concurrently with implementation of the other areas of the program. The major constraints to speedy implementation are two (1) large budget deficits and (2) required administrative and training improvements. For instance, a sharp lowering of tax rates at this time to levels that would stimulate private productive sector activity would seriously exasperate the budget deficits. Any reductions in tax rates must be phased in gradually with the administrative and training improvements. While such improvements increase the tax base, and thereby permit increases in revenues, they require a significant length of time to take hold.

The Government of Grenada has requested this assistance for the purpose of achieving comprehensive fiscal reform and budget viability, including expenditure control, as outlined in the throne speech of December 28, 1984. To ensure achieving these objectives the Government of Grenada will have to provide AID with certain commitments in writing. Such an agreement should include commitments to: (a) hire and train the necessary tax administration staff, (b) assign the necessary counterparts, and (c) provide the five resident advisors with the customary privileges (e.g. residential, multi-entry visas; exemption from taxes on income; exemption of import duties on household effects, etc). With regard to the assignment of counterparts, they should be either heads of their respective departments or technicians involved in day-to-day implementation.

The following table sets forth an illustration of key implementation dates.

January 1985	Requests for proposals issued
April 1985	Project Paper is approved
April 1985	Contractor selection made
April 1985	Contractor team arrives in Grenada
October 1985	Evaluation team establishes base line data and evaluation criteria.
December 1986	Evaluation carried out.
May 1987	Activity is completed.

A day or two after the closing date for submission of proposals (probably in March), a technical review panel meeting will be convened to consider the proposals. The panel will be chaired by the RDO/C Project Manager and include the RDO/C Economist, the Economist from USAID/Jamaica, and the Project Manager from USAID/Grenada.

IV. MONITORING PLAN

A. Primary Component

In addition to the scheduled evaluations, six principal means will be utilized to monitor the component activities and progress. The first will be the continuing informal contacts between the contractor Director and the RDO/C Project Manager and between the Project Manager and persons in and outside the Mission who come in contact with or are knowledgeable about the activities. The fact that the contacts are informal or unstructured does not diminish their importance. They will be a vital means by which the Project Manager will keep abreast of current and prospective component activities and be able to help shape the latter while they are still in the formative stage.

The second means is the monthly work schedules for each individual employed under the component. The contract Director will approve such schedules at least five days prior to the first of each month. Copies of the schedules will be forwarded to the AID Project Manager as soon as they are approved.

The third means is the process of review and approval of individual subcomponent activities. The subcomponent analysis document (Section III-2 above) which will be prepared and submitted for each proposed activity is designed to provide the information the Mission requires to approve or disapprove a proposed activity. Together with the Request, it will also provide the information on such matters as schedule, objectives, and policy linkages against which progress can be assessed. Assessments will be done during field observations and by analyzing information coming from required meetings and reports.

The fourth means will be end of assignment reports which will be prepared by the technician(s) for each subcomponent activity. Because most of the assistance to be provided will be short term, these will not be end of tour reports in the normal sense. They will be very brief reports which will cover whether the activity has achieved its objectives; if so what were the most important factors contributing to its success; and if not, why not. The reports will be submitted to and discussed with the contractor Director before the advisor departs. Copies will be sent to the USAID Project Manager. These reports will be held in the files of AID and the contractor and will be an important input to the semi-annual project progress reports.

Fifth, regular formal quarterly meetings will be held between the Director (and appropriate staff) and representatives of the Mission. An agenda for these meetings will be prepared in advance by the Director and Project Manager. At alternate meetings, a semi-annual progress report - which will have been distributed in advance - will be the principal agenda item.

Sixth, the Director will submit semi-annual progress reports to the Mission. These reports will cover:

- Progress over the past six months.
- A work plan for the next six months and beyond.
- The status of current subcomponent activities, including any changes to initial plans and the rationale for such.
- The results of activities completed during the previous six months, both planned and actual.

Most importantly, the semi-annual reports should record whether the overall project strategy is being implemented as planned. This means priority should be placed on the strategy components and not on the arrivals and departures of technical personnel and attendant disbursement information. Subcomponent activities will be monitored against the goals and implementation plans that will be part of the subcomponent request documentation.

The Project Director will also be required to keep a file on each activity in which changes in the initial plans and the reasons for them are recorded; any changes requiring AID approval should be documented. These files should be kept current and made available for USAID's review at any time.

B. Fiscal Reform Component

The importance of appropriate monitoring of the fiscal reform component cannot be underestimated. This is especially the case in light of the fact that Grenada is a country of significant foreign policy interest to the United States"

While this is a component of a regional project funded by RDO/C, the existence of the AID Mission in Grenada will greatly enhance overall monitoring capabilities. With five resident contract advisors located in Grenada, the first line of monitoring/AID management responsibility will be with USAID/Grenada.

Management of the Grenada fiscal reform component will--given its special conditions--be on two levels. A project manager at the USAID Mission in Grenada will be responsible for oversight of and clearance on all technical implementation matters. It is understood that such matters will be those that follow clearly from the consultants' contract and that do not represent decisions on substantive matters relating to the project. (Coordination on these technical matters between USAID/Grenada and the U.S. Embassy Grenada will be at the discretion of the two parties.)

Decisions on all matters of substance will be primarily the subject of quarterly meetings of a project committee, which will consist of appropriate persons from USAID/Grenada, U.S. Embassy Grenada, and RDO/C. Such quarterly consultations will likely include some participation by the consultant team, the Program Director in Grenada and the "primary component" Director in Antigua. These scheduled meetings will discuss progress reports prepared by the Grenada consultant team in the period following the previous quarterly meeting and will take decisions on matters of substance affecting the direction of the fiscal reform program. It is also expected that ad hoc meetings of this larger committee will be necessary from time to time.

At the outset of the project, the division between these two categories of oversight will be ambiguous at times. In those instances, it would be best for the project manager in USAID/Grenada to consult with RDO/C to seek clarification of whether substance or technicalities are at issue. In this regard, USAID Grenada's timely forwarding of consultants' reports, regular and irregular, to RDO/C will be of considerable use.

This will be the AID monitoring/management arrangement as long as the status of USAID/Grenada remains unchanged. If a change in status takes place before the end of the activity, an evaluation will be carried out to determine how best to handle the AID monitoring/management of the activity, given the nature of the change in circumstances.

While broad agreement already has been reached with respect to the implementation plan together with key dates mentioned above, agreement has yet to be reached in the specifics. An accord will have to be reached on the specifics prior to commencement of any significant work on the part of the contractor. Any implementation plan should call for as speedy implementation of the program as is possible. Prior to conduct of any studies, the contractor will have to submit to the Grenada Activity Committee a scope of work for the study together with a detailed justification. Again the emphasis should be on speed of implementation. Preparation of a study should not lead to more delays in implementation. The studies shall be initiated as soon as possible and their duration should be compressed wherever possible.

In order that this program's activities are conducted effectively and USG interests are taken into consideration, a number of reporting requirements will be instituted:

- In general, all reports submitted to USAID/Grenada will be copied to RDO/C.
- the contractor will furnish monthly work schedules for each individual employed under the program. The contractor and the GOG will approve such schedules at least five days prior to the first of each month.

Copies of the schedules will be forwarded to the USAID/Grenada Project Manager and the RDO/C Project Manager as soon as they are approved.

- The Contractor will furnish quarterly reports to AID detailing the program's progress. This report will also be forwarded to USAID/Grenada and RDO/C. It will be reviewed by the Grenada Project Committee and, if appropriate, by the RDO/C Project Committee.
- Each quarterly report will include (a) summary data; (b) a status summary; (c) comments on implementation, including any problems or delays; (d) outstanding issues requiring action; (e) a plan for proposed program activities for the next quarter; and (f) status of disbursements vs. budget. Again this plan will be reviewed by the Grenada Project Committee and the RDO/C Project Committee, as appropriate. On a more frequent basis, the Grenada Project Committee will engage in substantive discussions with the Government of Grenada.
- The Contractor will also produce ad hoc reports that will be sent to USAID/Grenada and RDO/C.
- USAID also will be monitoring closely contractor finances. For instance, a detailed justification will have to be tendered by the contractor for use of activity monies for data processing equipment.

V. EVALUATION PLAN

Provision has been made for two external evaluations; \$100,000 in the project budget outside the two implementation contracts has been set aside in FY 1986 for this purpose. RDO/C will contract with an independent organization to provide evaluation services on three separate occasions during the life of the project. The first occasion will be early in FY 1986. At this time the contractor evaluation team will visit the Antigua and Grenada project contractor offices to discuss the evaluation design. Baseline data will be established and an understanding reached on what the evaluation design will be presented to RDO/C and USAID/Grenada for final approval. Also at this time the evaluation contractor will make an informal assessment of the demand for the services available under the primary component. If the assessment shows weak demand, RDO/C will rethink the magnitude of the planned FY 86 obligation. The first evaluation will be conducted in December of 1986. A basic purpose of this evaluation will be to present recommendations on how the project management can be improved. Both components will be evaluated. A second evaluation will be conducted in December of 1987. As the fiscal reform component activities are expected to have terminated by this time, only the primary component will be evaluated. A basic purpose of the second evaluation will be to analyze the effectiveness of the primary component and make a recommendation as to whether or not the activities of the component should continue to be supported by AID. At this time RDO/C may consider amending the project to add more money and modify the PACD to allow the project to operate of an extended period, for up to two years.

TECHNICAL ANALYSIS

1. Scope of Activities

The project is multi-dimensional both in terms of the tasks it will perform and what it is intended to accomplish. On the one hand, the project will provide technical assistance to deal with a variety of problems relating to government budgeting, taxation, debt management, expenditure control, and financial management. In some instances, this assistance will be provided to help a government implement an already-taken policy decision, e.g., a tax administration expert is brought in to help a government implement a decision to reduce tax avoidance. Good technical assistance work in these areas will of itself result in benefits to recipient countries. However, these opportunities are also intended to serve as the basis for a consideration of a broader set of national policy issues.

Another type of technical assistance to be provided by the project will lead directly into questions of national policy. Examples here include overall tax structure assessment activities, and moving governments to the adoption of functional and/or performance budgeting methods.

Finally, the project will be called upon for advice by country leaders on important national policy questions. This sort of request will probably not occur until the project has won the confidence and respect of leaders by performing well on other technical assistance assignments. An significant exception is the comprehensive fiscal reform program for Grenada under the fiscal reform component. Under the program, the long-term advisors using as inputs the results of the various studies financed under the program will be furnishing economic advice to the GOG. Most important in this regard is the role of the fiscal advisor. The GOG already appears to be quite receptive to implementation advice to be furnished under the program. It provided to the USG with a formal request for the program.

In short, then, the project will be called upon to provide two types of technical assistance:

- Assignments that may eventually lead into important national policy areas.
- Direct advice to country leaders on national policy questions, including analysis of same and, if appropriate, help with implementing decisions.

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There is no question as to priority between these types of assistance: the project should put highest priority on responding to requests for direct advice on policy issues. However, this priority ranking does not mean the project should not provide technical assistance on subjects such as tax administration and expenditure controls. This is because, before any government leader is going to ask anyone for advice on an important national question, he will want to feel confident that the advice he gets will be reasonably sound and objective. The only way the project can establish such confidence is to do good technical work on lesser subjects.

While project priorities are clear, it is not possible to provide quantitative guidelines on the portion of technical assistance that should go to the areas outlined above. In part, this is because a thorough marketing study was not made of country needs; in part, it is because other donors might also start supplying the sorts of technical assistance called for by this project; and in part, it is because the flexibility in the development strategy should be retained. The important point is that the project place greatest priority on working directly with country leaders on national policy issues.

2. Technical Factors Influencing Project Outcomes

At the outset of this section, it should be emphasized that this will be a difficult project to implement in the sense that there will be an abnormally large number of judgement calls. Some of the factors that should influence those calls and the project outcomes are discussed below.

Capabilities of Project Directors

Ultimately, the success of this project will depend on the Project Directors of the two components. The Director for the primary component must have a working knowledge of the technical areas in which the project will work and must be entrepreneurial in the sense of finding ways to move from narrowly-defined technical assignments into larger policy issues. For the work at the policy level, the primary component Director must have a broad understanding of development issues and the trade-offs involved (an economic background would seem appropriate for this), but also must manifest professional knowledge and diplomacy, including cultural sensitivity, so as to win the respect and confidence of OECS leaders. In addition, the person will manage a large technical assistance operation and will be required to establish good working relations with other regional organizations and donor agencies that are providing similar types of assistance. Finally, the Director will have to exercise considerable judgement and diplomacy in reconciling U.S. policy interests with those of OECS countries. Similar skills will be required for the Director of the fiscal reform component. Working through the Fiscal Advisor, the Director will have to maintain a fine balance between the interests of the recipient (Grenada and any other OECS state assisted) and the USG.

Particular Technical Assistance Assignments

Several factors will influence the outcome of each assignment. Most obviously, the technical personnel assigned to the task must be competent and able to relate this competency to the particular problems of the country receiving assistance.

Second, it is clear that in the OECS countries, it is not adequate to simply write a report and expect that its recommendations will be implemented, even after they have been accepted. Experience with other technical assistance efforts in these countries has made it clear that they usually need assistance with the implementation of approved changes. Therefore, technical assistance should be available for both the analysis of what is needed and the implementation of approved changes. Because of this and because it often takes some time to get recommendations accepted, it will often be appropriate to program short term technical assistance for two discrete time periods: first, for the analysis and later, to assist with the implementation of recommended changes. The comprehensive fiscal reform program for Grenada explicitly recognizes this issue. Some problem analysis already has been undertaken and monies will be available for additional such analysis. However, technical assistance will be undoubtedly required to implement the conclusions of the various analyses. This is the role of the long-term advisors. They are required to insure that the agreed-upon recommendations are implemented.

Regarding the primary component, there is a question of sustainability. That is, how concerned should the component be about whether the technical assistance it provides leads to a sustained improvement in government operations versus an improvement that lasts only as long as the technical assistance is being provided? (e.g. A policy analysis that is complete, but does not build a capacity to do similar analysis in the future.) This component is not intended primarily as an institution-building activity. There will be opportunities in which there are simply no candidates for training who could take over the technical work being provided by the component. The component should not exclude subcomponents in which trainable counterparts do not exist. However, this situation should thoroughly explored and understood before subcomponent activities with no clear chance for being sustained are approved.

In certain instances AID will consider funding the costs of a counterpart. This will be considered when the burden of the activity on the recipient country or organization is considered extreme and there is a lack of capability or unavailability of existing personnel to assume a counterpart role.

The Danger of Merely Strengthening Government Institutions

The demand analysis work that has been done during the design of this project has uncovered a number of technical assistance requests

government role. For example, improved tax administration will result in increased tax collections which could in turn lead to supporting a larger government bureaucracy. Similarly, the two requests that have been received for a comprehensive review of the tax structure have been partially motivated by the desire to obtain additional government revenues. It should be kept in mind that the purpose of the project is not to increase the role of government. Hence, it is important that in taking on assignments that will increase governments' control potential, every effort should be made to convert them into a series of discussions with broader policy ramifications.

Using Technical Assignments as Vehicles for Broader Policy Discussions

As is emphasized elsewhere in this paper, a primary reason for taking on an assignment that is not directly linked to a policy matter is the hope that it will lead to policy areas requiring attention. This will not happen automatically, and frequently the technicians assigned to these tasks will not be the proper agents to cause it to occur.

The Director for the primary component will be the key vehicle for devising the strategy to move into policy discussions. This will involve being in close touch with the technicians assigned to the various components financed activities. Through this information exchange, the Director should be able to determine what policy issues need to be raised. These discussions will also allow the Director to determine whether the technician is qualified to play a role in furthering these discussions or whether others will have to be involved. The comprehensive fiscal reform program for Grenada under the fiscal reform component already has reached the "economic policy dialogue" stage. The program will be furnishing advice to the GOG, and it is believed that sufficient GOG commitment exists that a large portion of the advice will be accepted.

Getting Recommendations Agreed to and Implemented

It can be expected that there will be at least some resistance to changes resulting from technical analyses; greater resistance can be expected to recommendations for major policy changes. Some of this resistance will stem from inertia, some will stem from bureaucratic jealousies, and some will originate in political considerations.

No formula for how to deal with these resistances can be offered. However, it is the Component Directors' responsibility to:

- insure that the analyses leading to the recommended changes are sound.
- identify the sources of the resistance and determine whether they warrant a change in the recommendations.
- adopt appropriate strategies to get the revised recommendations adopted.

Regarding this last point, it should be clear that there are numerous strategies available to the Component Directors. The Directors can attempt (1) to personally convince policy-makers to bring together the interested parties to work out an acceptable compromise; (2) to either personally or through a third party engage in various forms of constituency building; (3) or to work back through U.S. channels to bring leverage to bear on the matter. Regarding the second option, the contractor may wish to contract with an organization like CARICAD, who, through a series of seminars and meetings, would seek to form a consensus within the government concerned.

3. Use of Caribbean Experts

It is said that there are more West Indians outside of the West Indies than there are in it. This is almost certainly true of highly trained personnel - they are the ones that have emigrated - including specialists in the areas in which this project will concentrate.

This pool of Caribbean expertise offers a unique opportunity. Caribbean experts can be located who have the requisite level of western training, exposure to western ideas and ideals, substantial experience abroad, and a knowledge of Caribbean cultures and customs. They are likely to suggest more realistic solutions to politically difficult problems. Ordinarily they will be able to gain acceptance more readily, and they are likely to be more effective in bringing policy advice to a definite decision.

In short, they will have all the advantages of an expert returning to his home country, without the stigma of just being another local person trying to tell other locals what to do. The implementation of the project should be structured to take advantage of this unique asset. Regional and international organizations should be used as resources in a systematic search for Caribbean experts. At least some of them might be hired through the EAS as a means of further strengthening that organization.

ECONOMIC ANALYSIS

The project is intended, where practical, to increase government capabilities in the areas of policy analysis, decision-making, and policy implementation. This should in turn lead to increased efficiency in both the public and private sectors, thereby making possible increased output and reductions in balance of payments pressures. The project is also intended to promote policies for increased private sector activities which will hopefully increase employment.

This type of project does not lend itself to meaningful quantitative analysis of benefits and costs. In part, this is because the vast majority of particular activities to be sponsored by this project have yet to be determined. However, assuming project activities reflect what is called for in this paper, ambiguities regarding outcomes still remain. For example, consider requests for comprehensive tax structure assessments and improved tax administration. In some cases, these requests have been largely motivated by desires to increase tax revenue collections. While increased collections might seem to be a reflection of better fiscal management and in fact reduce aggregate demand pressures, they could also serve as the starting point for an increase in the relative role of the public sector.

Some of the requests under this project will be for greater standardization in government treatment of individuals and enterprises. For example, improved tax administration will frequently lead to greater equality of treatment of taxpayers in similar circumstances. While such reforms are desirable from the standpoint of increasing horizontal equity, the substitution of rules for discretion can have adverse economic consequences. For example, it might be that a country believes it will be in its interest to attract a certain company or perhaps there are reasons why certain individuals should be exempt from taxes. Applying the same tax treatment to all might cause the firm or the individuals to act against the best economic interests of the country.

Many of the requests under this project will be for assistance leading to improved government control and management. Here, the important thing is to be sure that fulfilling these technical tasks opens the door for more general policy dialogues. But even if the specific tasks do lead to such dialogues, there can be no certainty that the outcomes will be positive. The outcomes will depend largely on political considerations and the quality of the personal interaction of those engaged in the dialogue. In this regard, the comprehensive fiscal reform program from Grenada under the fiscal reform component offers unique opportunities. Grenada's authorities appear genuinely interested in such reform. The GOG's Director General of Finance, a key player, is especially supportive.

There are numerous examples of bad policies which offer a real potential for policy reforms, e.g.:

- An island's investment review procedures are considered onerous by foreign investors. This is instrumental in the loss of a foreign investment that would have employed 500 persons. This investment alone would have increased the island's growth by one percent.
- A government operates a number of parastatal enterprises; these are requiring annual transfers from the public treasury of US\$1.4 million.
- In one state, the cost per pound of sugar which is produced domestically is double the domestic price, which itself is triple the international price. Cumulative losses of the industry which is state-run total US\$6 million over a four year period.
- In spite of tariff increases between 400 and 600 percent, a water authority persists in reporting losses amounting to at least US\$370,000 a year.
- A state owned commercial bank is encountering serious financial difficulties because of forced transfers to parastatal enterprises. Over a four year period, these transfers have increased from US\$3 million to US\$13.3 million.
- A country owns a number of state farms. Losses for the latest reporting year total US\$480,000 and the losses are expected to continue.

Given this illustrative list of examples of bad policy in action, there is ample reason to believe the potential for positive results is high. For the primary component, looking at the matter in aggregate quantitative terms, the gross domestic product of OECS countries together was roughly US\$635 million in 1983. Assuming an opportunity cost or discount rate of 15 percent and a ten year time horizon, the component has to only increase GDP by less than one quarter of one percent on a sustained basis to justify its costs. As for the comprehensive fiscal reform program, an increase of a little more than 0.5 percent in Grenada's annual growth rate is required. In short, an extremely small, positive change in economic performance is needed to justify the project. If there is a continuing pressure to convert technical assignments into policy change, there is a good likelihood of achieving much more. Given this and the potential risks outlined above, the project is justifiable on economic grounds.

SOCIAL SOUNDNESS ANALYSIS

1. General Overview

The Eastern Caribbean LDC's constitute a group of mini-states each with distinctive social and cultural characteristics, all with populations of predominantly African origin, but all with a contingent of persons of European (English or French) ancestry and many of racially mixed background. Former colonial and slave-holding social relationships have left a residue of attitudinal problems that make the region a particularly sensitive one for outsiders to work in. Island governments only recently freed of colonial domination are keenly sensitive about their independent status and reject efforts to impose tutorial relationships that might impinge on self-determination.

Thus, the basic feasibility issue is the question of willingness on the part of political leaders to solicit and accept assistance in sensitive policy areas. However, RDO/C believes that any reluctance can be overcome by skillful handling of initial and subsequent contacts. Successful precedents for this exist, and skill in this area is a vital characteristic which will be required for the individuals who are selected as Component Directors.

Women play a key role in many aspects of country development. Among the governments there are numerous women Ministers and in Dominica the Prime Minister is a woman, as also are all the assistant secretaries of the Ministries. Women would seem to have a less significant role in major private sector enterprises, but they operate large numbers of small businesses in all the islands.

2. Compatibility with Socio-Cultural Environment

In making this analysis it must be qualified by two conditions:

- General socio/cultural patterns exist among the island nation's governments.
- Their individual socio/political environments will disprove or give a subtle, but important nuance to any particular general pattern.

However, one general condition exists and that is the large, or as Jamal Khan describes it, ubiquitous role that government has in the life of its citizens.

Though it is pervasive, governments' ability to deliver is constrained, for example, by a lack of such basic systems as planning units that produce viable national plans. Although St. Kitts-Nevis and St. Lucia are further along than other governments with national planning processes, it suggests the possibility that conscious or unconscious decisions are being made in the other governments to deemphasize Government centered planning, e.g., Antigua. Regardless of their motivations, if these governments are to chart better, more self-directed courses for themselves, they will need an enhanced policy analysis/implementation capacity and agreed policy directions.

Since the OECS governments are relatively new in their independence, one should be impressed with the remarkable accomplishments that these nations' political leaders have been able to achieve especially in light of the strength of trade unions, within a surprisingly vibrant democratic party system that exists in most states. Placed in an environment where the political-social stakes are greater than in other larger democratic systems, because the resource base from which to distribute rewards is much more narrow, it is a tribute to nearly all of these nations that they have maintained their social-cultural stability.

This project's major outcomes should enhance the participating governments' ability to make decisions about economic structural issues and to manage their policy, planning and budgeting systems. Since policy dialogue and policy planning and budgeting systems bring to surface the conflicting values and ideas within a society's governmental system and its relationship to socio-cultural norms/values, this project provides a means for resolving these issues within the accepted democratic, political system.

3. Social Consequences and Benefit

The potential benefits from this project are significant, both for their short and long-term benefits. The major benefits and, if appropriate, beneficiaries are identified below:

- elected policy leaders and top level government managers will be provided with coherent analyses of policy issues that have significant impact upon their nations' citizens and economic well-being.
- elected policy leaders and top/middle level managers will have an enhanced capability to make policy decisions because under this project, their policy analysis and implementation capacities would have frequently been enhanced.

- Indirect beneficiaries will be the operators of private sector enterprises whose efforts will be more strongly supported both by better government tax and financial policies and by public services performed more efficiently and expeditiously. In turn, the general public of the participating countries could benefit by private sector expansion and job creation and by more equitable revenue and fiscal policies and administration.
- Credibility between a nation's citizens and their elected leaders is a central element in democratic systems of government. When promises are made and are not delivered, there can be instability because of rising expectations within the system. One means of deciding whether one is overpromising as an elected leader is to analyze one's policy options and decisions and to be assured that the implementation of those policy decisions is occurring in a effective manner. Two potential outcomes of this project are better policy decisions, and where appropriate, the increased ability for policies to be implemented.

ADMINISTRATIVE ANALYSIS

Since this project will be delivered under two direct AID contracts, there are no borrower or grantee administrative implementation capabilities to assess. Through a process of Work Programs and Policy Identification Agreements (See Implementation Plan), an assessment of the participating governments administrative capabilities, as they pertain to policy analysis and implementation, will be a component of each subcomponent agreement. This assessment will consider recipient country/regional organization counterpart capability. In some instances AID may consider directly funding counterpart costs if no suitable and available individual can be identified within the Government or organization.

Most all project activities will be paid for through contracts with two U.S. organizations. It is anticipated that this will entail various subcontracts and consultancy arrangements with organizations and individuals based both in the United States and the Caribbean.

The project will give systematic and careful consideration to funding certain segments of subcomponents through sub-contracts, with regional organizations, such as the EAS. However, this will only be done when it appears that the activities fit the work plan of the subcomponent, and the regional organization is qualified to do the proposed work.

Regional organizations might bring regional experts to the attention of the project. In return for such recruiting services, the project could subcontract for the services of such experts as needed through the organization that brought them to the attention of the project.

However, the project has no obligation to provide subcomponent support through regional organizations. Instead, the project's aim should be to provide appropriate technical assistance in the most cost-effective manner.

Nevertheless, if policy issues surface that are a concern to a group of eligible countries, the primary component may consider providing assistance directly to Regional organizations.

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LAC/DR-IEE-84-35

ENVIRONMENTAL THRESHOLD DECISION

Project Location : RDO/C

Project Title and Number : Public Management & Policy Planning
538-0096

Funding : \$5,000,000 G

Life of Project : Three years

IEE Prepared by : RDO/C

Recommended Threshold Decision : Categorical Exclusion

Bureau Threshold Decision : Concur with Recommendation

Copy to : William Wheeler, Mission Director

Copy to : Wendy Stickle, LAC/DR

Copy to : RDO/C

Copy to : IEE File

James S. Hester Date JUL 12 1984

James S. Hester
Chief Environmental Officer
Bureau for Latin America
and the Caribbean

INITIAL ENVIRONMENTAL EXAMINATION

Project Location: Caribbean Regional
Project Title: Public Management and Policy Planning (538-0096)
Funding: SDA \$5.0 million
Life of Project: Three and a half years
IEE Prepared By: Michael G. Huffman
Michael G. Huffman
Capital Projects Office
Date: July 11, 1984

Environmental Action

Recommended: A Categorical Exclusion is recommended. The Project will have no effect on the natural or physical environment. The Project is one of technical assistance intended to develop the capacity of recipient countries to engage in development planning, (reg. 22 CFR, Part 216-2 (C) (2) (XIV) and, therefore, falls into the parameters of those categorically excluded from following the environmental procedures outlined in 22 CFR Part 216.

Concurrence:

William B. Wheeler, Jr.

William B. Wheeler
Director
USAID,
Regional Development Office/Caribbean

Date:

July 10, 1984

R 050152Z SEP 84
 FM SECSTATE WASHDC
 TO AMEMBASSY BRIDGETOWN 6508
 BT
 UNCLAS STATE 262411

AIDAC

E.C. 12356: N/A

TAGS:

SUBJECT: PUBLIC MANAGEMENT AND POLICY PLANNING
(538-0296)

1. A DAEC REVIEW OF THE SUBJECT PID WAS HELD ON WEDNESDAY, JULY 18, 1984. WE REGRET THE DELAY IN TRANSMITTAL OF THIS GUIDANCE. AT THE REVIEW THE PID WAS APPROVED AND THE MISSION AUTHORIZED TO GO FORWARD WITH PP DEVELOPMENT, SUBJECT TO THE GUIDANCE BELOW:

2. THE PID DEMONSTRATED THE ADVERSE EFFECT PUBLIC SECTOR POLICIES HAVE HAD ON PRIVATE SECTOR FIRMS. MANY OF THESE PROBLEMS COULD BE AVOIDED IF THERE WERE BETTER COMMUNICATION BETWEEN THESE SECTORS.

A MECHANISM SHOULD BE CREATED TO ALLOW FOR PRIVATE SECTOR INPUT INTO THE IDENTIFICATION OF TARGET POLICY AREAS TO BE ADDRESSED.

3. S AND T/RL/ESE IS IMPLEMENTING THE EMPLOYMENT AND ENTERPRISE POLICY ANALYSIS PROJECT, EEPAP (538-5426). THEY ARE POUCHING YOU A COPY OF EEPAP'S PP, FOR YOUR REVIEW.

THE PURPOSES OF EEPAP ARE: 1) TO DEVELOP THE RESEARCH BASE AND METHODOLOGY TO ENABLE USAIL MISSIONS TO DEAL EFFECTIVELY WITH EMPLOYMENT GENERATION AS A POLICY ISSUE, 2) TO BUILD A U.S. CAPACITY TO PROVIDE POLICY ANALYSIS ASSISTANCE IN THIS AREA AND 3) TO PROVIDE THE TECHNICAL ASSISTANCE NEEDED A) TO FOSTER POLICY CHANGES WHICH REDUCE OR REMOVE HOST-GOVERNMENT BIASES AGAINST EMPLOYMENT GENERATION AND SMALL/MEDIUM SCALE ENTERPRISE DEVELOPMENT, B) TO HELP HOST GOVERNMENTS AVOID CREATING SUCH BIASES IN THE FUTURE AND C) TO BUILD OR STRENGTHEN HOST COUNTRY INSTITUTIONS WHICH CAN SUSTAIN THE POLICY IMPROVEMENT EFFORTS.

AS THESE PURPOSES ARE SIMILAR TO THOSE OF YOUR PROPOSED PROJECT AND SINCE EEPAP'S SERVICES CAN BE MADE AVAILABLE TO ANY INTERESTED MISSION ITS POTENTIAL RELATION TO THIS PROJECT SHOULD BE CONSIDERED.

CONTACT MILE FAREMAN OR ROBERT YOUNG OF S AND T/RD/ESE TO

ASCERTAIN TO WHAT DEGREE YOUR PROJECTS COULD BE COMPLEMENTARY.

REINARD UNDP IS MORE FAVORABLY INCLINED TOWARD LINES AND UNPP IS MORE FAVOR IS. WE SHOULD COORDINATE GOVERNMENT PLANNING TEAM AID IS. WE SHOULD COORDINATE WITH CARICAD TO THE DEGREE THAT IT IS MUTUALLY BENEFICIAL BUT WE SHOULD AVOID INVOLVEMENT IN PROJECTS THAT COULD RESULT IN AN INCREASE IN GOVERNMENT SIZE WITH ONLY A

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TAKEN: NAN	
SIGN: MAH 9/10	

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PROJECT CHECKLIST

Listed below are statutory criteria applicable generally to projects under the FAA and project criteria applicable to the use of Economic Support Funds.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP-TO-DATE? Yes
HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT? Yes

A. GENERAL CRITERIA FOR PROJECT

1. FY 1982 Appropriation Act
Sec. 523; FAA Sec. 634A;
Sec. 653(b).
 - (a) Describe how authorizing and appropriations committees of Senate and House have been or will be notified concerning the project; A Congressional Notification has been prepared and will be forwarded to Congress. No obligations will be incurred under the project until the waiting period expires.
 - (b) is assistance within (Operational Year Budget) country or international organization allocation reported to Congress (or not more than \$1 million over that amount)?
2. FAA Sec. 611(a)(1). Prior to obligation in excess of \$100,000, will there be (a) engineering, financial or other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance? Yes.
3. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance? No legislative action is anticipated to be required.

4. FAA Sec. 611(b); FY 1982 Appropriation Act Sec. 501. N/A.
If for water or water-related land resource construction, has project met the standards and criteria as set forth in the Principles and Standards for Planning Water and Related Land Resources, dated October 25, 1973?
5. FAA Sec. 611(e). If project is capital assistance (e.g., construction), and all U.S. assistance for it will exceed \$1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability effectively to maintain and utilize the project? N/A.
6. FAA Sec. 209. Is project susceptible to execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs. This is a regional project.
7. FAA Sec. 601(a). Information and conclusions whether project will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; and (c) encourage development and use of cooperatives, and credit Through the support for improved economic policies, the project will directly encourage the activities described in a, b, and d.

unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.

8. FAA Sec. 601(b). Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).
9. FAA Sec. 612(b), 636(h); FY 1982 Appropriation Act Sec. 507. Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.
10. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?
11. FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

The project is intended to encourage U.S. private trade and investment through coordination with the regional private enterprise projects and the encouragement of policies that lead to increased trade in general.

RFP'S will be issued in the U.S. and participation of U.S. private firms will be encouraged.

Participating governments will be making in-kind contributions of personnel, office facilities, and support. The U.S. does not own any local currency in the Caribbean Region.

No.

Yes.

12. FY 1982 Appropriation Act Sec. 521. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity? N/A.
13. FAA 118(c) and (d). Does the project take into account the impact on the environment and natural resources? If the project or program will significantly affect the global commons or the U.S. environment, has an environmental impact statement been prepared? If the project or program will significantly affect the environment of a foreign country, has an environmental assessment been prepared? Does the project or program take into consideration the problem of the destruction of tropical forests? AN IEE was prepared for the PID, a Categorical Exclusion was recommended and approved by the LAC/DR Chief Environmental Officer.
14. FAA 121(d). If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (dollars or local currency generated therefrom)? N/A.

B. FUNDING CRITERIA FOR PROJECT

Project Criteria Solely for
Economic Support Fund

- a. FAA Sec. 531(a). Will this assistance promote economic or political stability? To the extent possible, does it reflect the policy directions of FAA Section 102? Yes.
- b. FAA Sec. 531(c). Will assistance under this chapter be used for military, or paramilitary activities? No.
- c. FAA Sec. 534. Will ESF funds be used to finance the construction of the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such use of funds is indispensable to non-proliferation objectives? No.
- d. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? N/A.

TABLE H-1

PRIMARY COMPONENT
ILLUSTRATIVE BUDGET
(\$US)

	<u>JUNE- SEPT. 1985</u>	<u>FY 1986</u>	<u>FY 1987</u>	<u>FY 1988</u>	<u>Total</u>
I. CORE STAFF AND SUPPORT					
Director	67,268	183,850	183,850	190,350	625,318
Senior Professional	-0-	107,538	133,250	139,750	380,538
Administrative Officer	13,917	41,250	41,250	41,250	137,667
Office Support	57,200	48,800	48,800	48,800	203,600
SUB-TOTAL	<u>138,385</u>	<u>381,438</u>	<u>407,150</u>	<u>420,150</u>	<u>1,347,123</u>
II. ANTICIPATED ACTIVITIES					
Tax Administration Dominica	100,000	20,000	-0-	-0-	120,000
Tax Administration St. Vincent	57,000	24,000	12,000	-0-	93,000
Planning Dominica	63,850	139,750	-0-	-0-	203,600
SUB-TOTAL	<u>220,850</u>	<u>183,750</u>	<u>12,000</u>	<u>-0-</u>	<u>416,600</u>
III. OTHER ACTIVITIES					
Technical Assistance	-0-	364,153	580,000	580,000	1,524,153
Training	-0-	90,000	90,000	90,000	270,000
Invitational Travel	-0-	20,000	20,000	20,000	60,000
Commodities	-0-	80,000	80,000	80,000	240,000
SUB-TOTAL	<u>-0-</u>	<u>554,153</u>	<u>770,000</u>	<u>770,000</u>	<u>2,094,153</u>
TOTAL	<u>359,235</u>	<u>1,119,341</u>	<u>1,189,150</u>	<u>1,190,150</u>	<u>3,857,876</u>
IV. Contingency (10%)	35,924	121,934	118,915	119,015	395,788
V. Inflation (6% Compounded)	11,855	110,815	214,001	309,665	646,336
TOTAL	<u>407,013</u>	<u>1,342,090</u>	<u>1,527,066</u>	<u>1,623,830</u>	<u>4,900,000</u>
EVALUATIONS	-0-	100,000	-0-	-0-	100,000
GRAND TOTAL					5,000,000

TABLE H-2
FISCAL REFORM COMPONENT
ILLUSTRATIVE BUDGET
(\$US)

	<u>YEAR 1</u>	<u>YEAR 2</u>	<u>TOTAL</u>
I. <u>LONG-TERM TECHNICAL ASSISTANCE</u>			
A. Fiscal and Macroeconomic Advisor			
Salary	64,960.00	66,880.00	131,840.00
Fringe Benefits	16,889.60	17,388.00	34,278.40
Allowances	55,366.00	54,388.00	109,754.00
Supplemented Insurance	1,607.76	1,655.28	3,263.04
Total Direct Costs	138,823.36	140,312.08	279,135.44
Indirect Costs	33,692.43	34,053.74	67,746.17
TOTAL	<u>172,515.79</u>	<u>174,365.82</u>	<u>346,881.61</u>
B. Income Tax Advisor			
Salary	64,960.00	66,880.00	131,840.00
Fringe Benefits	16,889.60	17,388.00	34,278.40
Allowances	55,366.00	54,388.00	109,754.00
Supplemented Insurance	1,607.76	1,655.28	3,263.04
Total Direct Costs	138,823.36	140,312.08	279,135.44
Indirect Costs	33,692.43	34,053.74	67,746.17
TOTAL	<u>172,515.79</u>	<u>174,365.82</u>	<u>346,881.61</u>
C. Budget Advisor			
Salary	60,000	-0-	60,000
Fringe Benefits	15,600	-0-	15,600
Allowances	54,370	-0-	54,370
Supplemented Insurance	1,485	-0-	1,485
Total Direct Costs	131,455	-0-	131,455
Indirect Costs	30,834	-0-	30,834
TOTAL	<u>162,289</u>	<u>-0-</u>	<u>162,289</u>
D. Customs and Excise Tax Advisor			
Salary	48,720	50,160	98,880
Fringe Benefits	12,667.2	13,041.6	25,708.8
Allowances	41,642	40,616	82,258.0
Supplemented Insurance	1,205.82	1,241.46	2,447.28
Total Direct Costs	104,235.02	105,059.06	209,294.08
Indirect Costs	25,037.21	25,777.23	50,814.44
TOTAL	<u>129,272.23</u>	<u>130,836.29</u>	<u>260,108.52</u>

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E. Property Tax Valuation Advisor

Salary	60,000	-0-	60,000
Fringe Benefits	15,600	-0-	15,600
Allowances	54,370	-0-	54,370
Supplemented Insurance	1,485	-0-	1,485
Total Direct Costs	131,455	-0-	131,455
Indirect Costs	30,834	-0-	30,834
TOTAL	<u>162,289</u>	<u>-0-</u>	<u>162,289</u>

II. PROGRAM MANAGEMENT

Personnel	86,261.44	90,780.94	177,042.38
Fringe Benefits	22,427.97	23,603.04	46,031.02
Travel	12,900	7,250	20,150
Conferences/Meetings	7,500	7,500	15,000
Training	21,375	21,375	42,750
Publications	5,000	5,000	10,000
Other Direct Costs	38,500	38,500	77,000
Total Direct Costs	193,964.41	194,008.98	387,973.40
Indirect Costs	84,529.69	84,549.11	169,078.80
TOTAL	<u>278,494.10</u>	<u>278,558.09</u>	<u>557,052.20</u>

III. Grenada Fiscal Reform Office

Computers	150,000	-0-	150,000
Program Office	85,000	40,000	125,000
Office Staff (4)	13,000	26,000	39,000
Supplies	4,000	8,000	12,000
Maintenance	4,000	8,000	12,000
Communications	4,000	14,000	18,000
Vehicles	40,000	6,000	46,000
Classroom Aides	15,000	35,000	46,000
Representation	10,000	-0-	10,000
Total Direct Costs	325,000	137,000	462,000
Indirect Costs	24,000	38,800	62,800
TOTAL	<u>349,000</u>	<u>175,800</u>	<u>524,800</u>

IV. Short-Term Structural Studies

Personnel	92,019.33	39,331.25	131,350.58
Fringe Benefits	17,295.02	8,276.15	25,571.17
Travel	20,037.50	11,837.50	31,875.00
Other	25,954.54	944.60	26,899.14
Total Direct Costs	155,306.39	60,389.50	215,695.89
Indirect Costs	66,387.95	25,810.47	92,198.42
TOTAL	<u>221,694.34</u>	<u>86,199.97</u>	<u>307,894.31</u>

SUBTOTAL	<u>1,648,070.25</u>	<u>1,020,125.99</u>	<u>2,668,196.25</u>
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VI. <u>Contingency</u> (Approx. 12.5%)	204,945.90	126,857.86	331,803.75
<u>TOTAL COSTS</u>	<u>1,853,016.15</u>	<u>1,146,983.85</u>	<u>3,000,000.00</u>