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UNCLASSIFIED

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

CARIBBEAN REGIONAL

PROJECT PAPER

SMALL ENTERPRISE ASSISTANCE

AID/LAC/P-279

Project Number:538-0133

UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

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

2. COUNTRY/ENTITY: Regional Development Office/Caribbean

3. PROJECT NUMBER: 538-0133

4. BUREAU/OFFICE: Latin American/Caribbean (LAC) — 05

5. PROJECT TITLE (maximum 40 characters): Small Enterprise Assistance Project

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 02 DD 24 YY 91

7. ESTIMATED DATE OF OBLIGATION (Under 'B:' below, enter 1, 2, 3, or 4)
A. Initial FY 86 B. Quarter 2 C. Final FY 88

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

A. FUNDING SOURCE	FIRST FY B. FX	FIRST FY C. L/C	FIRST FY D. Total	LIFE OF PROJECT E. FX	LIFE OF PROJECT F. L/C	LIFE OF PROJECT G. Total
AID Appropriated Total						
(Grant)	(700)	(2,050)	(2,750)	(2,021)	(7,979)	(10,000)
(Loan)	( )	( )	( )	( )	( )	( )
Other U.S. 1.						
Other U.S. 2.						
Host Country Local	0	615	615	0	3,576	3,576
Other Donor(s)						
TOTALS	700	2,665	3,365	2,021	11,555	13,576

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	C. 2. Loan	D. OBLIGATIONS TO DATE 1. Grant	D. 2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	E. 2. Loan	F. LIFE OF PROJECT 1. Grant	F. 2. Loan
(1) SDA	773(b)	840				2,750		10,000	
(2)									
(3)									
(4)									
TOTALS						2,750		10,000	

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

11. SECONDARY PURPOSE CODE

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)
A. Code
B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

To increase the ability of local entrepreneurs to establish, expand, or increase the efficiency of their micro, small, and medium-scale enterprises to produce and sell their goods and services in the local, regional, and extra-regional markets.

14. SCHEDULED EVALUATIONS
Interim MM 08 YY 87 — MM 03 YY 89 — Final MM 02 YY 91

15. SOURCE/ORIGIN OF GOODS AND SERVICES
[X] 000 [X] 941 [X] Local [ ] Other (Specify) 935

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

17. APPROVED BY
Signature: James L Holtaway
Title: James S. Holtaway, Director, RDO/C
Date Signed: MM 02 DD 25 YY 86

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

AID 1330-4 (8-79)

PROJECT AUTHORIZATION

Name of Country: Caribbean Regional

Name of Project: Small Enterprise Assistance (SEA)

Number of Project: 538-0133

1. Pursuant to Section 106 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Small Enterprise Assistance Project (SEA) for the Caribbean region involving planned obligations of not to exceed $10,000,000 in grant funds over a five year period from the date of authorization, subject to the availability of funds in accordance with A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the project. The planned life of the project is 60 months from the date of the initial obligation.

2. The Project consists of assisting institutions of the participating cooperating countries of the region to increase the ability of local entrepreneurs to establish, expand, or increase the efficiency of their micro, small and medium scale enterprises in order to produce and sell their goods and services in the local, regional and extra regional markets. The Project will be implemented by the Caribbean Association of Industry and Commerce (CAIC), which will be the Grantee.

3. The Project Agreement which may be negotiated and executed by the officer to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate.

A. Conditions Precedent to Disbursement

1. First Disbursement

Prior to the first disbursement under the Grant, the Grantee will, except as the parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

(a) A statement of the name of the person(s) holding or acting in the office of the Grantee, together with a specimen signature of each person specified in such statement;

(b) Evidence that a Regional Coordinator (RC) mutually acceptable to both AID and the Grantee is in place;

(c) Evidence that a sound and responsive accounting system for this project is in place which conforms with generally accepted accounting standards; and,

(d) A statement of the organizational and procedural guidelines and lines of authority between Small Enterprise Assistance Project (SEA) and the Caribbean Association of Industry and Commerce (CAIC).

2. Disbursement for Project Activities in a Particular Participating OECS Country

Prior to disbursement to finance project activities other than the National Development Foundations (NDFs) in a particular participating OECS country, the Grantee will, except as the Parties may otherwise agree in writing, provide A.I.D., in form and substance satisfactory to A.I.D.:

(a) Evidence that a National Coordinating Committee (NCC) representing a cross section of the private sector community has been constituted and a Chairperson elected; and,

(b) An executed agreement with the participating NCC setting forth the terms and conditions of its participation in the project, including local counterpart contribution.

3. Disbursement for Small and Medium Enterprise (SME) Technical Assistance and Training Funds

Prior to the disbursement for Small and Medium Enterprise Technical Assistance and Training Funds, the Grantee will, except as the Parties may otherwise agree in writing, provide A.I.D., in form and substance satisfactory to A.I.D.:

(a) Evidence that the SEA Regional Coordinating Unit (RCU) has in place technical assistance/training and marketing professionals who are mutually acceptable to both AID and the Grantee;

(b) Evidence that a management consultant for the SEA RCU who is mutually acceptable to both AID and the Grantee has been contracted for approximately six months and is in place; and,

(c) A description of the Grantee's contracting procedures and a copy of the contract formats.

4. Disbursement for Small and Medium Enterprise (SME) Technical Assistance and Training Funds in a Particular Participating Country

Prior to disbursement for SME Technical Assistance and Training Funds in a particular participating country, the Grantee will, except as the Parties may otherwise agree in writing, provide A.I.D., in form and substance satisfactory to A.I.D.:

(a) Evidence that a qualified National Coordinator acceptable to the Regional Coordinator has been hired and is in place;

(b) Evidence that the NCC work plan listing project activities has been reviewed and approved by the Regional Coordinator and A.I.D.; and,

(c) Evidence that a sound and responsive accounting and financial reporting system at the national level is in place which conforms with generally accepted accounting standards.

5. <u>Disbursement for Matching Credit Funds and Small Business Investment Corporations</u>

Prior to disbursement for the Matching Credit Funds and Small Business Investment Corporations, the Grantee will, except as the Parties may otherwise agree in writing, provide A.I.D., in form and substance satisfactory to A.I.D., evidence that the SEA RCU has in place a finance professional who is mutually acceptable to AID and the Grantee.

6. <u>Disbursement for any Particular Matching Credit Fund and Small Business Investment Corporation</u>

Prior to disbursement to any particular Matching Credit Fund or Small Business Investment Corporation activity, the Grantee will, except as the Parties may otherwise agree in writing, provide A.I.D., in form and substance satisfactory to A.I.D.:

(a) Executed agreements between the Grantee and other parties setting forth the terms and conditions for using these funds; and,

(b) Plans for the utilization of SEA funds under the Small Business Investment Corporation and Matching Credit Fund arrangements.

7. <u>Disbursement to the National Development Foundation and Women in Development in a Particular Participating Country</u>

Prior to disbursement to the National Development Foundation or Women in Development in a particular participating country, the Grantee will, except as the Parties may otherwise agree in writing, provide A.I.D., in form and substance satisfactory to A.I.D.:

(a) Evidence that the financial management and control system and procedures have been reviewed and verified as adequate; and,

(b) Executed sub-grant agreements with the NDFs and WID setting forth the terms and conditions for using these funds, including monitoring and reporting requirements and loan policies and procedures.

B. Special Covenants

1. Subordinate Agreements. The Grantee shall covenant to submit all subordinate agreements (i.e. grants or contracts) with other organizations, firms or institutions to AID for prior review and approval if the amount exceeds $25,000 U.S.

2. NCC Work Plans. The Grantee shall covenant to submit annually the NCC work plans to AID for prior review and approval.

C. Source and Origin of Commodities, Nationality of Services

Commodities financed by A.I.D. under the Project shall have their source and origin in the United States and the participating member countries of the Caribbean Association of Industry and Commerce except as A.I.D. may otherwise agree in writing. Except for ocean shipping, the suppliers of commodities or services shall have the United States and the participating member countries of the Caribbean Association of Industry and Commerce as their place of nationality, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Project shall, except as A.I.D. may otherwise agree in writing be financed only on flag vessels of the United States.

Signature: James S. Holtaway
Name: James S. Holtaway
Title: Director, RDO/C

Date: 2/25/86

Clearances:

C/PD&M:POrr		CONT:RWarin	
PSO:CConnolly		RCO:SHeisnman	
PDO:EWarfield	E.B.W	A/PRM:BJensen	
SS:CKarch		RLA:TCARTER	

SMALL ENTERPRISE ASSISTANCE PROJECT

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LIST OF ABBREVIATIONS/ACRONYMS

BDD	British Development Division
BDF	Barclays Development Fund
BIMAP	Barbados Institute of Management and Productivity
CAIC	Caribbean Association of Industry and Commerce
CARICOM	Caribbean Community
CARIFTA	Caribbean Free Trade Association
CBI	Caribbean Basin Initiative
CDB	Caribbean Development Bank
CFSC	Caribbean Financial Services Corporation
CIC	Caribbean Investment Corporation
CIDA	Canadian International Development Agency
DFC	Development Finance Corporation
ECSEDA	Eastern Caribbean States Export Development Agency
EEC	European Economic Community
EIP II	Employment Investment Promotion II
FIT	Foundation for International Training
GDP	Gross Domestic Product
IDB-SPF	Inter-American Development Bank - Small Projects Fund
IEB	Irish Export Board
IESC	International Executive Services Corporation
IPIP	Infrastructure for Productive Investment Project
IVS	International Voluntary Services
JVFF	Joint Venture Feasibility Fund
LDC	Less Developed Country

MCF	Matching Credit Fund
MDC	More Development Country
NC	National Coordinator
NCC	National Coordinating Committee
NDF	National Development Foundation
NGO	Non Governmental Organization
OECS	Organization of Eastern Caribbean States
PADF	Pan American Development Foundation
PDAP	Project Development Assistance Program
PFP	Partnership for Productivity
PRE	Private Enterprise Bureau
RC	Regional Coordinator
RDO/C	Regional Development Office/Caribbean
SBA	Small Business Association
SBIC	Small Business Investment Company
SEA	Small Enterprise Assistance
SME	Small and Medium Enterprise
TARD	Technical Assistance/Research and Data Collection
USAID	United States Agency for International Development
USDA	United States Department of Agriculture
WID	Women In Development

I. SUMMARY AND RECOMMENDATIONS

A. Recommendations

1. Funding

RDO/C recommends that an SDA grant of $10 million be authorized, of which $2.75 million is proposed for obligation in FY 1986, for the Small Enterprise Assistance Project (SEA) which will be headquartered at the Caribbean Association of Industry and Commerce (CAIC) in Barbados and will serve the following countries: Antigua/Barbuda, Barbados, Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines. The Project Assistance Completion Date (PACD) will be February 24, 1991.

2. Geographic Code

The Project Authorization will specify that, except as A.I.D. may otherwise agree in writing, goods and services financed by A.I.D. under this Project shall have their source and origin in the United States and the participating member countries of the Caribbean Association of Industry and Commerce.

B. Summary Project Description

The Small Enterprise Assistance (SEA) Project will provide technical, managerial, marketing, and financial assistance to micro, small and medium-scale enterprises in the seven OECS States and Barbados. The project will be implemented through a grant to the Caribbean Association of Industry and Commerce (CAIC). CAIC will establish a distinct organizational unit within its structure to administer the project. The SEA Regional Coordinating Unit (RCU) will make sub-grants to national private sector entities which will be responsible for the actual delivery of services. For delivery of assistance to micro enterprises, sub-grants will be made to the National Development Foundations established in six of the OECS territories and Barbados, to Women In Development, Inc. in Barbados and to other appropriate entities. For delivery of assistance to small and medium scale enterprises, sub-grants will be made to those national private sector entities comprising the National Coordinating Committees (NCCs) in each OECS territory. The composition of these NCCs will be a matter of local decision, but must be representative of all individuals and organizations with a legitimate claim on Project resources. The NCCs will be responsible for working with local businesspeople to identify and clarify needs in order to provide an appropriate technical assistance, training or financial response. In addition to providing funding, the RCU will provide support to the NCCs in the start-up phase and assist them in establishing priorities with emphasis on promoting regional linkages where they exist. As a result of this Project, it is anticipated that there will be a measurable increase in the ability of local entrepreneurs to establish, expand or increase the efficiency of their micro, small and medium-scale enterprises in order to produce and sell their goods and services in the local, regional and extra-regional markets.

C. Summary Project Findings

This Project is ready for implementation and is considered socially, financially, and economically sound, and technically and administratively feasible.

D. DAEC Concerns and Design Guidelines

The concerns and issues raised at the DAEC review of the Project Identification Document (PID) for this Project are as follows:

1. The purpose statement is too broad and would be more appropriate as a goal.

The purpose statement has been restated as being to increase the ability of local entrepreneurs to establish, expand, or increase the efficiency of their micro, small and medium-scale enterprises in order to produce and sell their goods and service in the local, regional and extra-regional markets. This statement accurately reflects the intended purpose of the SEA Project.

2. <u>Project Strategy: The Project, particularly the lending operations, should be designed to be as financially self-sustaining as possible by the end of the Project.</u>

Those small and medium enterprises receiving technical assistance and training will initially be expected to contribute at least 25% of the cost of services. By the end of the Project, it is anticipated that these services will have been sufficiently developed locally and will be low enough in cost so that full cost recovery will be achievable.

Financial support to small and medium-scale firms will be channelled through regular commercial banks and through new financial mechanisms which will operate on the basis of full cost recovery from the outset.

A major focus of USAID support to microenterprises will be to encourage experimentation designed to lower the unit costs of services, increase the number of persons assisted and increase service efficiency. As a result of this experimentation, the NDFs should attain a high level of cost recovery. It is not anticipated, however, that they will be able to achieve full cost recovery within the five year life of this Project.

A. <u>A mechanism should be developed to charge a combination of interest rates, fees, and/or commissions which cover to the maximum extent possible the costs and risks of lending to small and micro enterprises.</u>

Financial support for small and medium-scale firms, which will be available via commercial banks and other financial institutions will be provided at market rates of interest on loans. The banks should have no difficulty covering the costs of loan administration given their current structure of interest rates and fees.

Financial support for micro enterprises is channelled to the commercial banks via the National Development Foundations. The banks are reluctant to continue to absorb the loan administration function as the NDF portfolios grow. Usury laws in many countries limit the opportunity for upward adjustment to absorb the increased costs associated with micro lending. The SEA Project staff responsible for the NDF component will work with the banks to identify ways such as assessing fees to defray added costs so that they can absorb micro lending into their normal portfolio, as has been done in other parts of the world.

B. The PP should fully describe the delinquency policy to be followed under the project.

Principal lending for small and medium-scale firms will be through regular commercial banks and/or other private mechanisms. Funds to these entities will not be provided unless they can demonstrate that they are profitable, which would obviously subsume a reasonable default rate. Funds for micro enterprise lending will be provided through the NDFs, WID, Inc., etc. Funding will not be provided to the NDFs unless they can maintain a default rate below 10% by the end of the first Project year. It is anticipated that within two years, this figure can be reduced to 6% as a result of ongoing technical assistance.

C. Permanent personnel of service providing agencies should be kept to a minimum.

The principle of minimizing permanent staff of service providing agencies and subcontracting for services has been fully incorporated into the Project. Permanent staff will only source and coordinate services. They will not deliver services. Although initially a modest amount will be provided to support operations at the national level in each country, the Project is being structured so that this function can be absorbed by a local organization utilizing local resources.

D. The Mission should carefully review the overall TA needs of the Project, eliminate as much as possible, and charge for it where feasible.

As indicated previously, fee-for-service is being built into the Project from the outset. At least 25% of the TA cost will be charged initially and it is anticipated that full cost recovery of locally provided services will be achieved by the end of the Project.

3. Project Design: The Mission is encouraged to review the structure with a view toward simplifying the implementation arrangements.

Design considerations in the Caribbean are complicated by geographic dispersion. While the size of the population under normal conditions would only justify the simplest of institutional structures, geographic spread, difficulties of communication and the insularity of the islands in the Region require somewhat more complexity. It is deemed essential to Project success that there exist an implementing vehicle on each island. At the same time, considerations of coordination and efficient use of resources plus the need to utilize a single grantee to implement the Project justify a regionally-based capability as well.

A. The Regional Coordinating Entity

The continued position of the Mission is that the Regional Coordinating Entity (RCE) is being established to facilitate and coordinate this Project. Continuity of support and access of those supporting enterprise development on each island to off-island resources on a long-term basis will be facilitated as a result of the choice of the Caribbean Association of Industry and Commerce (CAIC) as the RCE. CAIC's constituency is the business community in the Region. One of their objectives is to provide relevant services to their members. It is anticipated that a capacity to provide such services will continue beyond the end of the Project.

B. The National Coordinating Entities

The specific design of the NCE in each island and the complementary organizations and their services are identified and described in the Project Description, and the Technical and Administrative Analyses sections.

4. Selection of Implementing Institutions: Criteria for selection of the RCE and NCEs should be stated in the PP, and the process for selecting them should be described.

The criteria for selection for the RCE and the NCEs and the selection process are described fully in the Administrative Analysis section of the PP.

5. Project Financing: The Mission's willingness to provide grant funds for credit and loan guarantees should be related to the willingness of the service providing agencies to satisfy A.I.D.'s concern for adequate efforts on recovery of costs and maintenance of funds in real terms.

A discussion of these issues and their implications for project design is contained in the Financial and Credit Analysis section.

6. Project Impact: The PP should include an estimate of the increased employment and investment that will be generated by the Project.

Estimated Project impact is indicated in the Economic Analysis Section.

7. Policy Dialogue: The Mission should build into this Project a mechanism to do the research and carry out the policy dialogue required to bring about an atmosphere more favorable to the development of small business.

Policy constraints are considered a critical impediment to SME development. A component is built into the Project to allow for modest studies of key policy constraints. Once such constraints have been adequately defined utilizing Project funds, another Mission Project -- the Public Management and Policy Project (PMPP) would be called upon to carry out the more systematic analytical and follow-up work required. PMPP is particularly designed to undertake this type of function and so is not being duplicated in the Project.

8. Audit/Evaluation: The PP should include an audit plan for each of the participating islands, and a complete evaluation plan.

Plans for auditing, monitoring and evaluating the SEA Project are discussed in the Monitoring and Evaluation Arrangements section of the PP. The establishment of acceptable financial management and control systems at both the national and regional levels have been included as conditions precedent to disbursement. A more complete audit plan will be developed at this time.

9. Implementation Plan: A detailed first year implementation plan should be contained in the PP.

Such a plan is contained in the document.

E. Contributors to the Project Paper

The following individuals contributed to the development of this Project Paper:

1. A.I.D.

a. Project Design Committee

Peter Orr, Chief, Project Development and Management
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3. Caribbean Association of Industry and Commerce

Patterson Thompson, Executive Director

II. BACKGROUND AND RATIONALE

A. Background

The private sector in the Eastern Caribbean is slowly evolving from a historical base in plantation agriculture and related trade. Until World War II, plantation agriculture dominated all of the Commonwealth Caribbean territories with the exception of oil rich Trinidad and Tobago. With the acceleration of decolonization following the World War II, however, there has been a concerted effort through specific policy determinations to diversify the economies into light manufacturing, tourism and food crops for domestic and export consumption.

The Caribbean consists of small open economies fundamentally dependent on external trade and imports of capital and technology and consumer goods. Historically, access to the larger world economy has been based on a client state relationship with a European power which has usually included preferential access to each other's markets. Cognizant of both their common historical heritage and common vulnerability, the former British West Indies territories have been striving since the 1950s to maximize utilization of their scarce resources through political and economic integration movements, first with the West Indies Federation, followed by the Caribbean Free Trade Association (CARIFTA) and culminating in the Caribbean Community (CARICOM) in 1973.

The establishment of CARICOM accelerated the economic integration process in the region. An aggressive strategy of import substitution and protectionism strengthened the industrial sector of the MDCs (More Developed Countries) of Trinidad and Tobago, Jamaica, Guyana and Barbados. It also offered special concessions to the LDCs (Less Developed Countries) of Antigua/Barbuda, St. Kitts-Nevis, St. Vincent and the Grenadines, Grenada, St. Lucia and Dominica to establish an indigenous manufacturing base to meet regional requirements, particularly in consumer goods.

However, regional integration has not been the sole development strategy operating in the Caribbean. Coterminous with the policy of moving away from traditional plantation agriculture was the acceptance of what has been termed by Lloyd Best as the "Industrialization by Invitation" model of development predicated on the experiences of Puerto Rico's "Operation Bootstrap." The view that became dominant in the MDCs in the 1950's and 1960's was that structural factors impeded the transformation out of agriculture into manufacturing. These factors included small size of the domestic market and the absence of capital and entrepreneurship. Government policy aimed at correcting these deficiencies focused on encouraging foreign investment in manufacturing through a series of legislated incentives. Special incentives were provided for industries producing exclusively for export. The MDCs adopted this strategy for certain extra-regional exports even as they expanded the domestic and regional base through import substitution.

Twenty years later, facing harsh global economic realties which have undermined the foundation of CARICOM, the smaller islands of the Eastern Caribbean, the Organization of Eastern Caribbean States (OECS) find themselves in a precarious position vis-a-vis their MDC trading partners in CARICOM. Even the Special Regime for the LDCs, the arrangements providing for concessionality for manufactured products from these islands, has not succeeded in redressing the trade imbalance with the larger territories. Hence, the OECS countries are now engaged in adoption of the "Industrialization by Invitation" model which strikes a severe blow to the concept of regional integration as each island is now aggressively competing to attract foreign investors in enclave type industries. Increasingly, employment in the Eastern Caribbean is seen to be dependent upon the successful attraction of foreign investment. Management of this strategy has been hampered by many constraints, including the diseconomies of size, poor natural resource bases, inefficient trade routes and lack of skilled private sector human resources in marketing and management of large enterprises.

B. Economic Setting

The combined population of the seven OECS states -- Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Kitts-Nevis, St. Lucia, St. Vincent and the Grenadines is estimated at 535,000 with a combined gross domestic product (GDP) of approximately US$617.2 million. In comparison, Barbados' population alone is a quarter of a million and its GDP is US$1151.6 million or almost double the combined GDP of the seven OECS states. Aggregate unweighted growth in GDP at constant factor prices during the last four years averaged 3.5 percent per year for the OECS, while Barbados witnessed a modest annual growth rate of 0.2 percent during the same period.

The structure of production in the OECS States by comparison with the other Member States of CARICOM reveals:

- a far greater degree of dependence on agriculture in the OECS States. This is true both in terms of the share of agriculture in GDP and also the share of agriculture exports as a percentage of GDP;

- a far greater degree of commodity concentration in the OECS States where, with the exception of Antigua and Barbuda and Montserrat, the share of agricultural exports in total exports ranges from 59-96%;

- a small manufacturing sector in terms of both GDP contribution and contribution to export earnings.

Looking across the individual countries, it is clear that the island states are not carbon copies. Per capita incomes for the OECS states range from just over US$400 in St. Vincent to over US$2000 in Montserrat. This compares with over US$3000 in Barbados. In Antigua, Barbados, and Montserrat, per capita incomes are relatively high compared with the other OECS States, due largely to the dominance of tourist and residential expatriate sectors in the context of very small population sizes. St. Vincent is close to the other end of the continuum, with the second lowest per capita income after Grenada, a large resource gap, but a 4.8 percent real growth in GDP since 1980. Agriculture represents approximately 30 percent of GDP in Dominica with agro-processing making significant further contributions but with very limited opportunities for increased earnings from tourism.

Largely dependent on tourism and on a few primary products such as bananas and sugar sold to protected markets abroad as sources of income and employment, the economies of the seven OECS States and Barbados are extremely vulnerable to fluctuations in the economies of the industrialized nations. Growth in the islands over the past decade has been set back by: (a) the OPEC oil price hikes of 1973-74, and the ensuing global recession; (b) a series of hurricances and other natural disasters; (c) continued decline in European budgetary support for the region; and most recently, (d) the strengthening of the U.S. dollar against both European currencies and the Canadian dollar, the currencies in which the region's major export receipts are denominated.

The weak economic fabric of the OECS States is reflected in their general failure to meet recurrent expenditures from locally generated revenues. Many of them still depend on external financing to balance in their recurrent budgets. This means they are totally dependent on foreign financing for all of their capital expenditures. The implication here is that the pace of development has been a function of the success with which these countries can negotiate foreign financing, the pace of disbursement of external funds, and the countries' absorptive capacity. There is a rather uneven pattern of capital expenditure in the OECS States, due precisely to the factors just mentioned. Furthermore, when one takes into account the essential inability of these countries to tap international capital market resources, including the hard resources of international financing institutions, it becomes evident that that the pace of their development has really been determined by the fruits of their relationship with a small number of donor countries and institutions.

C. Rationale

1. Importance of Small and Medium Enterprises to the Eastern Caribbean Economy

As is the case in most developing countries, small and medium scale enterprises play important roles in the Eastern Caribbean. In general, these businesses contribute significantly to expanded employment opportunities and higher incomes 1/, and they are relatively efficient users of capital and credit. Studies have indicated that small and medium businesses provide several times the number of jobs per investment dollar than large businesses in developing countries2/. For example, a recent study of the Honduran economy indicated that the assets per worker were almost eight times higher when small firms were compared to large ones. Similar evidence of the relative importance of small enterprises in selected countries of Latin America, Africa and the Far East is documented in "The Pisces Studies," a report done for AID's Bureau for Science and Technology in September, 1981.

Where markets are small and geographically isolated, such as in the Eastern Caribbean, small- and medium-sized enterprise must develop broader regional and other markets. In the Eastern Caribbean, where the small size of the economies restricts available options, small enterprises become an important source of opportunity and economic well-being for the majority of the population.

1/ "Employment and Development of Small Enterprises," Sector Policy Paper, World Bank, February, 1978.

2/ IBID.

Additionally, small- and medium-sized businesses are often the source of training for other sectors of the economy. They frequently provide the setting where both skills and the discipline of the workplace are first learned. Surveys of a variety of Eastern Caribbean business have confirmed this fact[3].

Small and medium businesses, particularly in the repair and service areas, also provide a necessary foundation for the development of larger enterprises. Larger enterprises, for example those oriented to exports of electronic assemblies, are more likely to locate in the Eastern Caribbean if a supporting infrastructure of welders, machine repairmen, motor repairmen, electricians, craftsmen, and other support businesses and capabilities exist. Similarly, the presence of small supportive businesses facilitates the growth of existing industries which are essential for the economic health of the region. Growth of the tourist industry, for example, requires concomitant services such as dry cleaning, transport, and food services for visitors' needs in order to develop properly. These requirements represent opportunities for small businesses to meet the real needs of an industry which is essential to Regional growth. Such supportive small businesses would help to increase the percentage of the tourist dollar which stay in the hands of local businesses and contribute to the spread of the wealth or benefit which the industry can potentially offer[4].

Finally, small and medium businesses play an important societal role in the Eastern Caribbean, responding to local needs and providing a source of services, products and meeting places which are not available elsewhere. These non-salaried people represent an important part of the entrepreneurial base of the Eastern Caribbean and are a source of social stability. A repairer and painter of autos, for example, who operates in the street in

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3/ AID-sponsored Partnership for Productivity (PFP), Inc. study entitled "Pre-feasibility Study for a Small Business Development Strategy in the Eastern Caribbean."

4/ "Small Business in the Caribbean, a study of Programs Supporting Small Business Development and Entrepreneurship," by Michael G. White. Prepared for the Inter-American Foundation, March 1984.

front of his house, informally offers a direct educational experience to young apprentices who take the time to help the owner sand and dismantle autos in preparation for painting. Effectively, auto mechanics are being taught without the cost of a vocational school.

The significance of small and medium enterprises to the economies of the Eastern Caribbean is difficult to estimate in quantitive terms. The existing studies of the region provide little information on the number, size and economic impact of these businesses. This is due in part to fragmented industrial structure, (i.e. these enterprises participate in varied sectors and are often quite georaphically dispersed), and to the informal nature of many of these enterprises, many of which are not formally registered. However, some information and estimates have been assembled.

A 1982 study by small business experts, Moreau and Juliard estimates that small businesses comprise an average of 10 to 14 percent of the Regional GDP (over 40% in some countries) and 23 to 26 per cent of the Region's labor force5/. Other studies have estimated employment in small businesses to be close to 20 percent of country totals6/. These totals approximately double when medium-sized enterprises are included; that is small and medium businesses are estimated to account for about 25 percent of the GDP and almost half the labor force.

Moreau and Juliard also found that the numbers of small businesses are considerable. They estimate that there are over 3,500 small businesses in St. Lucia, over 1,400 in St. Kitts-Nevis, and over 2,700 in St. Vincent and the Grenadines. In these three islands alone, small businesses employ over 20,000 people.

5/ "The Micro-Business Sector in Selected Territories of the Eastern Caribbean," Prepared for CAIC and USAID by Gordon Moreau and Chriss Juliard, April 30, 1982.

6/ PFP Study.

A 1982 study by small business analysts, Gibbons and Dowes confirms the importance of small businesses in Barbados[7/]. They noted that over 97 percent of all business enterprises in Barbados were small and that small-scale enterprises are numerically predominant in all economic sectors except manufacturing.

2. Definition of Small and Medium Enterprises

As noted previously, there have been few attempts to segment and quantatively describe the overall business community in the Eastern Caribbean, and no reliable statistics are currently available. However, Michael White, in his March 1984 study for the Inter-American Foundation, and the AID-sponsored PFP study have provided definitions for the smaller segments of the business community. Based on these and other analyses, RDO/C defines the small and medium business communities in both quantitative and qualitative terms. The quantitive definition provides a more tangible means for understanding the types of enterprises toward which the project is directed. However, the qualitative definitions of the target group are more useful for gaining insight into the types of companies and people which will be direct beneficiaries.

Businesses in the Eastern Caribbean have frequently been segmented into four groups: Micro, Small, Medium and Large. For purposes of analysis, micro and small businesses have been conbined into a single continuum. Businesses in each category generally share the same basic characteristics and are expected to require similar, if not the same types of assistance.

Small - Enterprises with less than 10 employees, sales less than US$35,000, and assets less than US$15,000.

Medium - Enterprises with 10 to 50 employees, sales in the US$35,000 to US$250,000 range, and up to US$75,000 in assets.

7/ R.W. Gibbons and P. Dowes, BIMAP, 1982.

The following qualitative definition of small and medium enterprises is less precise than the above, but is more meaningful for understanding assistance needs and determining project design. Small and medium business, as defined for this project, possess at least some of the following characteristics:

- Loosely organized, with little or no formal management structure;
- Individual proprietorship, family-owned, or partnership structure;
- Often unregistered;
- Not a member of a trade association;
- Start-up capital was provided from savings or borrowed from family or friends;
- Limited or no formal management training;
- Simple, single entry bookkeeping or perhaps no formal bookkeeping at all;
- Few or no formal selling contracts;
- Produces for the local or regional market and does not export outside the region;
- Assistance needs are not being satisfactorily served by existing institutions.

3. Problems Encountered by Small and Medium Enterprises

As noted by Moreau and Juliard, Gibbons and Dowes, the PFP study, and others who have studied the Eastern Caribbean economies, most small and medium enterprises have a variety of unmet needs which restrict their ability to be more productive. Needs may vary considerably by country, by sector of the economy, and by the individual business entity, but broadly include limitations in the areas of administrative capabilities, marketing access and skills, technical capabilities, infrastructure support, and credit.

a. Marketing Access and Skills

The problems of marketing are particularly acute in the Region. This results from the very small markets on each island which force many businesses to consider a broader, regional focus. To date, the limited effectiveness of CARICOM in reducing trade barriers among the countries in the Region has inhibited regional trade, particularly from the smaller firms. When combined with an unsophisticated approach to quality, product design and delivery requirements of the buyer, most small and many medium businesses have limited opportunities for raising prices, lowering costs, and obtaining larger market shares.

Participants in the PFP Survey listed market access, market information and knowledge, and marketing skills as principal concerns of small and medium businesses. The rural base of many of these enterprises, the general absence of marketing, the constraints to Regional marketing which result from trade barriers, and the limited collection, distribution and transport capabilities further exaggerate the difficulties of effectively marketing their products.

b. Administrative Management Capabilities

Knowledge and application of basic business tools such as accounting, bookkeeping, inventory management, cost analysis, and business and financial planning are not common in small and medium businesses in the Eastern Caribbean. The absence of these capabilities contributes to operational inefficiencies which retard business growth. Such deficiencies generally lead to an underutilization of assets, poor uses of cash, and unnecessary uses of credit.

c. Technical Capabilities

Varied technical constraints are key considerations for many small and medium businesses. Specific issues mentioned in surveys of these businesses in the Eastern Caribbean include the lack of available technical training, the limited availability of qualified technical assistance, the generally low level of technical sophistication, low labor productivity, and the limited availability and high cost of adequate facilities and equipment. A small number of enterprises have partially overcome this last constraint by sharing facilities and equipment. This is sometimes a feasible way to address this issue, but the organizational and institutional capabilities to encourage and stimulate this action are modest.

Of additional concern to Eastern Caribbean businesses are sourcing and procurement limitations. Small businesses often buy in small quantities at higher costs as most of them do not have the resources to buy and store larger quantities at reduced prices. Mechanisms to promote collective purchasing of raw materials and other items would both improve availability and reduce costs. Also, assistance in determining the best equipment and the lowest-priced source could offer options to purchasing only what is available locally. Again, effective institutions to encourage and promote these activities have not emerged in the Eastern Caribbean.

d. Credit

The access to credit by small and medium businesses in the Eastern Caribbean is constrained by a variety of factors, the most important of which are:

- The inability of these businesses to convince banks and other financial institutions of their credit-worthiness. Loan decisions are usually based on the availability of collateral rather than on the ability of the small and medium enterprises to assume and carry the debt burden. The Moreau and Juliard Study indicates that 85 percent of small businesses cannot qualify for commercial credit.

- It is often difficult for these enterprises to meet standard bank regulations, as they frequently lack a verifiable credit history and audited financial statements, are not able to prepare acceptable business plans and financial projections, and find the credit application process cumbersome, time-consuming and confusing. Moreau and Juliard data indicate that 80 percent of small businesses are self-financed.

- The long delay from the initiation of a credit request to final loan approval and disbursement is a handicap for cash-short businesses.

- The credit application process requires substantial managerial time and resources which are extremely limited in most small businesses.

The actual availability of funds for commercial lending purposes is not currently a problem because the banks are very liquid. Other forms of financing, particularily long-term and equity financing is constrained.

e. Infrastructural Limitations

Small businesses, principally those that are rurally based, often are affected by limited infrastructure capabilities. Poor transportation, high cost or unavailability of power supplies, and poor communications have adversely affected many small businesses. Also, the inability to remain abreast of market needs or to deliver products at reasonable costs in good condition minimizes growth potential.

D. Relationship to Mission Strategy

The four overriding objectives of the Mission's economic assistance to the Eastern Caribbean are: (1) to promote economic growth, primarily among the six members of the Organization of Eastern Caribbean States, as measured by significant movement in gross domestic production and employment, led by export earnings; (2) to strengthen free political institutions and environments in which private economies flourish; (3) to foster economic self-reliance; and (4) to support regional cooperation and regional institutions when they help achieve the first three objectives.

In support of these objectives, the Mission's private sector strategy aims to create an environment conducive to rapid growth in private business investment, thus leading to increased employment and exports. In the near-term, the objective is to attract enclave manufacturing enterprises which can provide the short-term benefits necessary in present circumstances of increasing unemployment and imbalance in trade accounts. Concurrent with the attraction and establishment of foreign enclave manufacturing is a move to deepen enterprise development on each island through assistance to local entrepreneurs. Thus, the longer term strategy objective for the private sector is to increase employment in indigenous enterprises which expand in response to demand from both tourism, agriculture and enclave manufacturing (the foreign exchange-earning sectors), and from increased personal income within each country.

The Eastern Caribbean economies are characterized by a three-tiered private sector structure, consisting of (1) enclave enterprises which bring in inputs, management, and technology, and export to established markets in the U.S. and/or Europe; (2) regional enterprises which sell in local and regional markets and may be able to make small inroads into competitive export markets; and (3) domestic enterprises which serve local markets with little opportunity for export potential.

The RDO/C activities designed to attract enclave manufacturing currently include the Coopers and Lybrand investment promotion contract; infrastructure development (roads, ports, airports and energy); factory shell construction, and limited training for employees of these firms.

RDO/C's assistance to regional export enterprises has included project development support (Caribbean Project Development Facility/International Finance Corporation), and credit (Caribbean Financial Services Corporation, CPDF-arranged commercial financial packages, and the Latin American Agribusiness Development (LAAD) Corporation).

Domestic enterprises have been assisted by RDO/C's grants to the recently established National Development Foundations (NDFs) and other PVO activities on a country-specific basis. These latter enterprises will be the target of the Small Enterprise Assistance Project.

RDO/C has provided overall support to the business community through its assistance to the Caribbean Association of Industry and Commerce. Aimed at promoting private investment and stimulating productive employment, this assistance provides for institutional support for CAIC and its affiliate chambers and manufacturing associations as well as for programs in economic research, technical assistance, and training.

RDO/C longer-term strategy is to integrate the three tiers of the private sector and thus obtain the benefits of synergism and mutual support. The integrated program will strive to link enclave manufacturing to regional and domestic producers by improving the management and service provisions of local enterprises. This will be complemented by incentives for forward and backward subcontracting in both productive and service industries. The first step is to generate more local enterprises serving the export manufacturer. The second step is to assist local enterprises expand their services or products for larger domestic or regional markets. Enclave manufacturing should create a "multiplier" in domestic business activity. Making this linkage work is the second thrust of RDO/C's program.

The third thrust of RDO/C's program is to bolster local domestic enterprise activity, especially in those imported items which can be produced locally. The Small Enterprise Assistance Project (SEAP) is designed to address this portion of RDO/C's program and will concentrate on providing the knowledge and capacity to initiate or expand locally viable businesses serving mainly the local population. While SEAP will be the centerpiece of RDO/C's assistance to domestic enterprise over the next few years, there will also be a concerted effort to coordinate and, where relevant, utilize the resources of other RDO/C, A.I.D. centrally funded, U.S. Government, and donor projects. For a more detailed discussion of SEAP's relationship to these activities, see Annex F.

III. PROJECT DESCRIPTION

A. Goal and Purpose

The goal of the Small Enterprise Assistance (SEA) Project is to increase levels of employment, income, productivity and economic growth in the Eastern Caribbean countries by assisting in the development of privately owned productive enterprises.

The purpose of SEA is to increase the ability of local entrepreneurs to establish, expand, or increase the efficiency of their micro-, small-, and medium-scale enterprises in order to produce and sell their goods and services in the local, regional, and extra-regional markets.

B. Statement of Objectives

In order to meet the goal and purpose stated above, the SEA project has as its specific operational objectives:

- to assist micro-enterprises through National Development Foundations (NDFs) and the Women in Development (WID) programs;
- to support the establishment of National Coordinators to facilitate delivery of technical, managerial, and marketing assistance to small- and medium-scale entrepreneurs;
- to coordinate the provision of training assistance to entrepreneurs and supporting institutions (NDFs, National Coordinators, banks, business associations);
- to establish pilot matching credit funds in two countries to assist in the financing of small- and medium-scale enterprises which would not otherwise qualify for commercial bank loans;
- to facilitate the establishment of small business investment companies (SBICs) on a pilot basis in two countries to stimulate increased local capital investment and complement commercial bank financing for small- and medium-scale enterprises; and,

- to establish a SEA Regional Coordinating unit within the Barbados office of the Caribbean Association of Industry and Commerce to facilitate and coordinate all project activities on a regional basis.

C. Project Elements

1. Technical Assistance

Primary Objective and Key Principles

The Small Enterprise Assistance Project's primary emphasis is on the timely and appropriate application of technical assistance to increase both the bankability and viability of small- and medium-scale productive enterprises.

The provision of such technical assistance would adhere to four key principles:

- driven by market demand;
- offered for a fee to cover a portion of assistance costs;
- emphasis on practical, personalized interventions; and
- structured around accessing and networking existing local, regional, and extra-regional resources.

Technical assistance would be market driven in that it would be responsive to local requests. These requests would be formulated into a national work plan which would be developed each year by National Coordinating Committees (NCCs) established under the project and approved by the project's Regional Coordinator (RC). These plans would formulate the types of technical assistance to be provided and the types of firms to be assisted. Such planning is not intended to necessarily preclude response to new requests for assistance which might deviate from the work plan. However, it provides a framework within which the NCC can determine its general priorities. It also provides a mechanism through which the RC may assist the NCC to consider regional opportunities and constraints.

Technical assistance would be offered following the maxim "no pay, no play" to screen out requests that are not serious, to heighten the value recipients place on project-supported technical assistance, and to foster project sustainability through eventual cost recovery. It is expected that initially technical assistance would have to be subsidized due to the small scale of the project's target clientele. However, as the project progresses, local technical assistance would be sufficiently developed and low enough in cost so that full cost recovery would be attainable by the end of the project for locally-procured technical assistance.

Technical assistance would emphasize hands-on, one-on-one interventions in response to the repeated demand for practical advice tailored to the special needs of the f[illegible] requesting assistance. That is, the guiding philosophy wou[illegible] address the common demand throughout the region to "sh[illegible] us how, don't tell us how." In keeping with this approach, a diagnosis of firm needs would be carried out by the NC prior to delivery of technical assistance to assure that assistance provided is responsive to the true needs of the firm. NC capacity to carry out such diagnosis might be quite limited initially and would probably have to be supplemented by technical support from such entities as the Peace Corps or IVS or from the RC, where the need can not be met locally. Since many of the requests may be similar, it is anticipated that some of the technical assistance can be provided on a group basis without compromising the integrity of the assistance.

Project-sponsored technical assistance would endeavor to be non-duplicative by emphasizing the accessing and networking of existing resources. Rather than focus on the creation of new facilities to provide technical assistance, the project would focus on matching existing local, regional, and extra-regional resources with requests for technical assistance from small and medium enterprises (SMEs) in the OECS countries, with special emphasis on building up local technical assistance providing capability.

Prospective Services

Any micro, small- or medium-scale indigenous productive enterprise would be eligible for project-sponsored technical assistance. Although large indigenous and foreign-owned firms would be able to take advantage of joint technical assistance and training opportunities under the project, they would be charged a higher fee, based on ability to pay, which may more closely approximate 100% of the cost of the services rendered.

As indicated in Figure 1, such technical assistance could encompass all phases of the project cycle, namely project:

- identification;
- preparation;
- financing;
- implementation; and
- assessment.

FIGURE 1

PROSPECTIVE TECHNICAL ASSISTANCE SERVICES

Project Phase	Technical Assistance
Project Identification	* Sector/Sub-Sector Study * Prefeasibility Study * Entrepreneur/Enterprise Identification & Motivation
Project Preparation	* Market Evaluation * Feasibility Study * Definition/Selection of Production Technology
Project Financing	* Identification Of Funding Source(s) * Preparation Of Credit Application * Negotiation Of Financing
Project Implementation	* Management Assistance * Production Support * Marketing Support
Project Assessment	* Performance Evaluation * Strategic Planning * Operations Research

For example, project-sponsored technical assistance would include activities such as:

- a prefeasibility study of fruit processing and packaging in St. Lucia;
- an evaluation of the market for St. Kitts cut flowers in North America;
- assistance in the identification and selection of equipment for a processed spice producer in Grenada;
- preparation and negotiation of financing for a sea excursion business in Antigua;
- marketing support for a handicraft producer in St. Vincent;
- management advice for a soap production operation in Dominica; and
- assistance in organizational restructuring and strategic planning for a shirt producer in Montserrat.

Creating a policy environment conducive to small- and medium enterprise development in the Eastern Caribbean is an important objective of this project. This aspect of the project would complement current efforts to affect policy change, such as the AID-assisted PMPP project. Any significant policy issues encountered would, if possible, be channelled to such projects. In the absence of this option, SEA would assist local business groups to undertake modest studies of policies and procedures which adversely affect firm profitability. These studies could be utilized by the organizations that commissioned them in advocacy with their respective governments, and as input for PMPP. Such procedural and policy issues include:

- customs procedures;
- access to business/export licences;
- access to visas; and
- eligibility for business incentives.

National-Level Activities

At the national level, the National Coordinating Committee (NCC) which would be established by the local business community would develop technical assistance priorities in their annual work plans. These priorities would be based both on actual demand through individual requests received from entrepreneurs and on consensus by committee members of local needs. The National Coordinator hired by the NCC would have the authority to provide technical assistance utilizing local technical assistance capacity valued up to EC$2,500. Assistance above that level would be channeled to the Regional Coordinator to assess its feasibility and priority. Thus, the National Coordinator (NC) functions with respect to technical assistance would be to:

- provide or identify consulting assistance to local businesses, primarily in the areas of project identification, problem formulation, project analysis and planning, local market analysis, project financing, financial management, and production and marketing management for up to EC $2,500 per request, and, when approved by the RC, for amounts larger than EC $2,500;

- specify problems which cannot be responded to locally, and facilitate the utilization of regional and extra-regional technical assistance resources through referrals to the project's regional level, along with specific preferences if available;

- broker project financing, by improving the quality of project design and presentation, and by enhancing commercial banks' understanding of, and confidence in funding proposals.

- develop and maintain a roster of locally available technical assistance and training resources; and,

- identify and mobilize appropriate local resources to respond to client needs wherever possible.

Regional-Level Activities

At the regional level, the project would assist in the establishment of a private sector regional coordinator (RC) to facilitate and coordinate the flow of resources into the region and to the NCCs.

In addition to serving as the project's primary grantee, and thus the project's overall manager, the RC role with respect to technical assistance would be to:

- develop and maintain a network of technical assistance resources that could be accessed quickly and efficiently in response to specific problems identified in the field;
- mobilize appropriate internal, regional, and extra-regional resources using the project's technical assistance and training funds;
- optimize response efficiency by coordinating and/or pooling national requests whenever possible;
- reassess individual requests for technical assistance greater than EC$2,500; and,
- represent the NCC network in discussions and negotiations with external donors and extra-regional sources of technical assistance.

In an effort to decentralize application of, and accountability for project resources, a percentage of the project budget designated for technical assistance would be allocated at the project's initiation among the seven prospective NCCs, against which approved NCCs could draw technical assistance funds, within guidelines previously agreed upon by the RC and the requesting NCC and on the basis of their approved national work plans. The RC would assess NCC use of project resources semi-annually, and base subsequent NCC fund replenishment upon past NCC performance.

This strategy is based on the belief that over the long-run, the RC role should be to facilitate and coordinate rather than govern, and that the project should strive to achieve a balance between the exercise of local discretion and the achievement of overall strategic objectives.

Thus, with the exception of larger drawdowns of technical assistance subsidies, or cases where national drawdown requests can be coordinated or pooled at the regional level to increase efficiency and effectiveness, NCCs should be encouraged to increasingly, commensurate with demonstrated local capability, program their project resources themselves, as well as to accept responsibility for the outcome of local project activities. Although national work plans must be approved by the RC and the RC will assist in plan development and updating, the RC will not dictate the content of national work plans. The role of the RC in development of the work plans will be to advise and assist NCCs to be aware of the reality of the larger regional and international market place.

The RC will be responsible for monitoring regularly, and evaluating periodically, NC use of project resources for technical assistance before these resources are replenished.

Both the NCs and the RC should maximize the use of free or externally subsidized consulting services whenever possible, such as Peace Corps volunteers, International Voluntary Services staff, Project Development Assistance Program advisors, the Caribbean Project Development Facility, International Executive Service Corps experts, and the like, but they should also be prepared to pay commercial rates when necessary.

National Development Foundations and Women in Development

In addition to the above-described technical assistance activities, the project would also absorb the current AID support to the OECS and Barbados National Development Foundations (NDFs), and to Women in Development (WID) based in Barbados. The project would also consider providing support to similar but yet unidentified efforts to promote microenterprise development in the region.

This support is designed to foster entrepreneur "greenhouses," that is, places where potential business people can be identified, supported, and hopefully brought into the mainstream of commerce and manufacturing.

AID support to micro-enterprises is two-fold:

- institutional support to the NDFs and WID, in terms of technical assistance and financing to help in NDF and WID establishment, organization, management, and staffing; and

- direct assistance to NDF and WID borrowers via the extension of grants to the NDFs for the provision of counseling regarding micro-enterprise project identification, preparation, and implementation, and the provision of financial assistance via revolving and guarantee loan funds.

This support would continue virtually unchanged in the project's initial years, as most of the NDFs have only recently begun operations, but would be assessed periodically to allow project adaptation to field developments. Like the other project-sponsored technical assistance components, NDF and WID grants would also flow through the RC. The National Work Plans prepared each year would include an element on the NDF. The NDF must be involved in the preparation of this component of the Plan and must agree to its content. The NCC of which the NDF would be expected to be a part would be expected to review NDF activity as part of its periodic review of other activities which the NCC is supporting.

Because of the interest of other donors in supporting microenterprise development in the Eastern Caribbean, USAID would encourage these donors to fund micro enterprise assistance components as project implementation proceeds, such as the replenishment of credit funds, or support for the provision of business extension and consulting services. Should such supplementary funding become available, USAID would then be able to devote more resources to innovative and experimental activities to support microenterprise development.

Linkages Between Microenterprise, SME, and Large Enterprise Assistance

The previous discussion divided businesses into three principal groups, microenterprises, small and medium enterprises (SMEs), and large enterprises, each group quite different in terms of scale and sophistication of economic activity, and thus, in the nature and source of appropriate technical assistance.

Microenterprises, being the smallest and least formal of the three groups, would receive assistance through organizations such as the NDFs and WID. SMEs, larger and more formalized business ventures than the more informal microenterprises, would receive assistance via the National and Regional Coordinators described earlier.

However, these three groups overlap somewhat with each other at the respective ends of their classifications. For example, the largest microenterprises can sometimes be considered the smallest SMEs, and vice versa. The project would seek to enhance these overlapping relationships, as it tried to facilitate the graduation of the most successful NDF or WID-assisted microenterprises to project-sponsored SME assistance, or the evolution of project-assisted SMEs to paying customers for mainstream, unsubsidized technical assistance and training services.

Furthermore, any commercial linkages between firms in either the same or different business categories would also be encouraged, through such means as subcontracting, and the delivery of product-oriented technical assistance and training using the stronger firms as resources to help the weaker firms.

2. Training

Primary Objective and Key Principles

The primary objective of training sponsored by the Small Enterprise Assistance Project is to enhance the long-term institutional capacity and capability of project participants, including both intermediary organizations, and participating enterprises.

Although such training would be but a specific subset of project-sponsored technical assistance, and would be delivered via the same RC/NC mechanism described earlier, it would have attributes that merit special consideration both during project planning and project implementation.

As described earlier, most of the technical assistance envisioned under the project would be demand driven, that is, responsive to specific requests from the field. Project-sponsored training is also demand driven in the sense that it too would be responsive to expressed needs in the field, would likewise emphasize the practical over the theoretical, and would be conducted almost entirely at the work place. However, it would also be characterized by:

- carefully planned, tailored programs;
- continuity and progressive enhancement;
- skills upgrading; and
- performance sensitization.

Carefully planned programs which are tailored to the needs of prospective trainees would enhance both the efficiency and the effectiveness of project-sponsored training activities. It would enable the project to identify and secure the best qualified and most appropriate trainers well in advance, as well as allow key prospective trainees to program their time sufficiently in advance to enable participation in such training activities.

Training continuity and progressive skills enhancement is important to ensure a growth path for project trainees, so that they in turn might become trainers of new project participants.

Skills upgrading and performance sensitization are probably the most critical elements of project-sponsored training, as they would be meeting the wide-spread demand for specific assistance in the areas described below.

Prospective Training Services

The primary recipients of project-sponsored training would be:

- o small- and medium-scale entrepreneurs;
- o small- and medium-scale enterprise production workers and marketing staff;
- o commercial bank staff;
- o NC staff;
- o RC staff; and
- o NDF and WID employees.

As with project-sponsored technical assistance, the emphasis would be on utilization of existing resources, such as the Barbados Institute of Management and Productivity, and the Foundation for International Training. Rather than focus on the creation of new facilities to provide training, the project would focus on matching existing local, regional, and extra-regional resources with requests for training from small and medium enterprises (SMEs) in the OECS countries.

A critical component of project-sponsored training would be an emphasis on sub-sector clustering for training around particular product lines and markets, as well as an active worker visitation program to production and marketing facilities in the United States.

As indicated in Figure 2, project-sponsored training activities would encompass all phases of the project cycle, namely project:

- identification;
- preparation:
- financing;
- implementation; and
- assessment.

FIGURE 2

PROSPECTIVE TRAINING SERVICES

Project Phase	Training
Project Identification	* Sector/Sub-Sector Assessment * Market Assessment * Preliminary Project Assessment
Project Preparation	* Detailed Project Assessment * Equipment Identification and Selection * Market Penetration
Project Financing	* Financial Market Functioning * Loan Appraisal * Financial Brokering
Project Implementation	* Operations Management * Personnel Management * Bookkeeping * Cost Accounting * Quality Control * Portfolio Management
Project Assessment	* Project Evaluation * Strategic Planning * Operations Research

For example, training would include activities such as instruction on:

- sector, market, and project assessments for RC and NC staff;
- equipment identification and selection for local entrepreneurs;
- equipment operation and maintenance for the staffs of local enterprises;
- specific production functions and processes, as well as quality control, for the staffs of local enterprises;
- plant maintenance for the staffs of local enterprises;
- corporate and cooperative marketing for the staffs and owners of local enterprises;
- small business management and accounting systems for the staffs and owners of local enterprises;
- industrial and manufacturing loan appraisal for commercial bank loan officers;
- the functioning of financial markets, and in the brokering of financing packages, for NC staff;
- portfolio management, collection policies, and client monitoring for NDF and WID staff; and
- instruction in project evaluation and strategic planning for RC staff.

Emphasis in the above-listed examples would be placed not only on initial training, but on continual upgrading through training. For example, training in project appraisal might be held periodically, with each session building on the preceding one.

<u>National Development Foundations and Women in Development</u>

In addition to the above-described training activities, the project would also absorb the current AID support to the OECS and Barbados National Development Foundations (NDFs), as well as to Women in Development (WID). It would also consider offering support to similar but yet unidentified programs in the region.

Project-sponsored training would focus on the training of NDF and WID staff so that they can better respond to the needs of their clients. Such training would include:

- NDF and WID staff development;
- the design of training curricula and programs for NDF and WID clients;
- regular exchanges of information and experiences among NDF and WID staff.

The above-listed training activities would be carried out through via a contract with the Pan American Development Foundation (PADF) and through sub-grants with each NDF. In addition, where training can benefit other elements of SEA, joint training may be developed. This broader training should be designed and implemented in cooperation with NDF and WID staff to ensure their responsiveness to expressed field needs, and should be coordinated with periodic meetings of these staffs to build on and pool each organization's respective expertise.

3. Credit and Investment Fund

Primary Objective and Key Principles

The primary objective of the Small Enterprise Assistance Project Credit and Investment Fund (SEA Credit and Investment Fund) would be to continue the provision of assistance to microenterprises, as well as to complement prospective technical assistance and training services to small- and medium-scale enterprises (SMEs).

The SEA Credit and Investment Fund would have two principal components:

- Microenterprise Credit Funds; and
- SME Credit and Investment Funds.

The Microenterprise Credit Funds would be established as a slightly modified continuation of current financial support to the OECS and Barbados national development foundations (NDFs) as well as to support the Barbados-based Women in Development (WID) small credit program, while the SME Credit and Investment Funds would consist of parallel pilot projects to complement the new technical assistance and training services described earlier.

Microenterprise Credit Funds would seek to:

- provide credit to complement ongoing microenterprise training, counseling, and technical assistance activities;
- only offer credit to those microenterprises meeting predetermined development criteria, and having no alternative sources of credit; and
- extend credit at market-established commercial rates to facilitate at least partial recovery of lending costs.

SME Credit and Investment Funds would seek to:

- ensure that credit is available for those of the project's targeted clientele who have identified and prepared viable projects which may not be bankable due to lack of equity or collateral;
- assess such projects using commonly accepted commercial bank loan appraisal criteria;
- extend credit at least market-established commercial rates to promote sustainability of project-sponsored SME credit facilities; and,
- experiment with the development of alternative financing modes such as equity financing in order to fill the current gap in financial services available to SMEs.

Microenterprise Credit Funds

Intermediaries

USAID is currently providing credit funds to microenterprises in Barbados and six OECS countries (Dominica, Antigua and Barbuda, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, and Grenada) through their respective National Development Foundations (NDFs).

Since existing grant agreements with five of these NDFs (Barbados, Antigua, St. Lucia, St. Kitts/Nevis and St. Vincent) will expire on March 31, 1986, new grant funds to NDFs for credit activities carried out beyond that date would be included under this project.

Women in Development (WID), a quasi-NDF based in Barbados, would receive similar assistance, to carry out experimental work designed to test new models of assistance to micro enterprise.

Channelling Mechanism

Specific allocations to each NDF and to WID would be determined at the time of project implementation, based on national plans submitted annually to the project's Regional Coordinator by the NCC. Included in the NDF section of this plan would be a discussion of predefined efficiency criteria, particularly in regard to acceptable default rates. The first year plan would be for a partial year only, with the first full year being 1987. A review of each NDF's financial management and control system and procedures would be conducted prior to initial disbursement. SEA assistance to the NDFs would be channeled as follows:

- each NDF would have its Microenterprise Credit Fund (revolving or loan guarantee fund) replenished by the RC based on NDF justification of its disbursement of previous RC allocations; new disbursements would, to a limited extent, be authorized before existing loan funds were totally expended in order to ease the cash flow problems encountered by most NDFs;

- separate accounting of the Microenterprise Credit Fund would be maintained by each NDF, according to a loan tracking and monitoring system to be developed jointly by the RC and the NDFs and adopted by all participating NDFs;

- quarterly summaries of the loan portfolio would be sent to the RC, including a comprehensive list of all loans outstanding, and overdue amounts, if any; and

- o reflows from loan principal and interest collected by the NDFs could be directly credited to the Microenterprise Credit Fund, and taken into account each time a request is sent to the RC for Fund replenishment.

Lending Criteria

The credit activities undertaken by NDFs and WID with project funds would be unchanged from those they currently carry out, at least until the NDFs and WID have demonstrated their ability to efficiently manage their existing portfolio.

Subloans would be granted to microbusinesses in the form of:

- o term loans to purchase equipment, or for other investments;
- o short-term loans for working capital;
- o guarantees to cover other institutional credit; or
- o any combination thereof.

The general purpose of this activity would be to help strengthen existing microenterprises, or to help establish new ones, in order to strengthen their integration into the formal economy, as well as eventually graduate them to other financial institutions, including commercial banks.

Enterprises eligible for credit would be the same types of businesses that would have access to technical assistance, i.e. those belonging to the industrial, artisan, service (including tourism) and commerce (including small traders and hucksters) sectors. There would also need to be clear evidence that these businesses would not normally qualify for other institutional credit.

Collateral Requirements

In view of the fact that lack of adequate collateral is precisely what precludes most microenterprises from qualifying for regular institutional credit, a flexible attitude would be adopted by the NDFs and WID. When machinery or other equipment is financed, the NDF would take a lien on that equipment. In other cases, the NDF would take any collateral available, in the form of real estate, other personal or business asset, or third party guarantee. However, since many of these microbusiness entrepreneurs do not have any substantial collateral to offer, most of the NDF loans would remain unsecured.

Loan Size

Maximum loan size for loans financed through the Microenterprise Credit Funds would be U.S.$15,000. Within that limit, individual NDFs and WID would be free to set up or alter their own lending policies, which would be identified in the annual plans. Since microenterprises are by definition of very modest size, and their needs and ability to take on new credit are thus limited, the vast majority of loans would be well below U.S.$10,000, with an average possibly around U.S.$3,000 based on experience to date.

Loan Terms and Conditions

Loan terms would of course be dependent on loan purpose. Investment loans for the purchase of equipment and other permanent types of assets would be for up to five years, with grace periods of up to one year. However, in most cases loan terms of up to three years would be sufficient, since microenterprises have the flexibility to adapt quickly to an expanded or modified production schedule, and can recover the cost of new investments particularly fast due to their high turnover of goods and low overhead.

Loan conditions would vary from country to country, according to local market rates. However, the interest rate charged by each NDF would in no instance be lower than the rates generally applied by commercial banks locally for other than prime customers (usually 2-3 points above the base rate). Moreover, rates would be reviewed, and if necessary adjusted, on a regular basis by the respective NDF Boards to reflect changes in the local inflation rate and other conditions.

PADF Training and TEchnical Assistance

The NDFs have been established with the assistance of the Pan American Development Foundation (PADF), which also served as the conduit for initial AID financing to most of them. During the first eighteen months of the SEA Project implementation, PADF will be asked to prepare and implement a program of training and technical assistance designed to increase the managerial capability and technical efficiency of the NDF leadership and staff.

During its eighteen month contract, PADF will be providing the project with a full-time staff person. This person will work under the general direction of the Regional Coordinator and under the direct supervision of the RC staff person responsible for financial management. Working with the NDF Executive Directors, the PADF staff person will develop a detailed training plan for the eighteen months which will be approved by the RC prior to signature of the contract. This work plan will include clear objectives and quantifiable measures with which to determine whether the objectives have been met.

SME Credit and Investment Funds

Overview

In contrast to the Microenterprise Credit Funds, the SME Credit and Investment Funds would represent new types of AID-assisted activities. Consequently, they would be implemented on a pilot basis in four of the project's eight participating countries, with subsequent support and replication dependent on the results of these experiments.

Two models would be tested for the channeling of funds to SMEs, as further explained in the Financial Analysis section:

- Matching Credit Funds (MCFs) would be created in two countries, whereby commercial banks would, given risk-reducing incentives, put up one dollar of their own money for each dollar provided by the project; and

- Small Business Investment Companies (SBICs) would be established in two countries, whereby AID would complement funds raised by local investors to provide financing to SMEs via a private, national-level venture capital firm.

Although the design and execution of these two models would be quite different, their objectives would be similar.

In the short-run, they would, through alternative channels, attempt to ensure that technically feasible, financially viable projects are not abandoned because traditional lending institutions do not find them bankable due to lack of equity, collateral, or guarantees.

In the long-run, they would strive both to graduate the most creditworthy clients to commercial bank borrowing without special facilities, and to strengthen the commercial banks' understanding of, and capacity to analyze SME projects, thereby moderating their reticence to lend to viable SME projects.

The project's technical assistance and training components would help SME entrepreneurs to identify and prepare projects for presentation to existing credit sources. If, using standard loan appraisal criteria, these credit sources found the project appealing, but too risky for the reasons listed above, then the lending institution could have recourse to the Matching Credit Fund or the Small Business Investment Company, as described below.

If the SME entrepreneur met criteria for participation in one of these programs, the proposed project could use the capital facility to address its financing constraint. Over time, this entrepreneur would hopefully qualify for credit assistance from traditional funding sources.

It should be noted that any SME firm eligible for project-sponsored technical assistance or training would also be eligible to apply for either the Matching Credit Fund or the Small Business Investment Company, whether or not they actually received SEA technical assistance or training. This would include any small- or medium-scale indigenous productive enterprise, or, for all practical purposes, all businesses in the formal sector except foreign owned businesses or their subsidiaries, and enterprises consisting primarily of mercantile activities.

Matching Credit Fund

A project-sponsored Matching Credit Fund would operate as described below.

A loan application would be presented by an entrepreneur to a commercial bank. Simultaneously, this loan application would be copied to the NDF, or to any other prespecified institution, to make sure that the proposed project was eligible for Matching Credit Fund support vis-a-vis pre-established lending criteria.

If so, the bank would then analyze the project internally, adhering to standard loan appraisal procedures and criteria. If the proposed project was found to be potentially viable but still in need of additional project preparation, the bank would approach the local National Coordinator for assistance. It should be noted that participating banks could also benefit from direct technical assistance in carrying out this review function, and in managing their SME loan portfolio in general, if they so desired.

In most cases, the entrepreneur would have been referred to the bank by project staff or consultants involved in technical assistance or training activities, or by NDFs unable to fund the project because of size constraints. However, in other cases, an entrepreneur may go directly to a bank, which is likely to happen more when the local business community is made aware of the program through word-of-mouth.

If the bank reviewed this loan, but did not find the project bankable due to insufficient equity, collateral, or guarantees, it would indicate its willingness to participate under the Matching Credit Fund. If the NCC concurred, based on guidelines established by the RC, the Matching Credit Fund would match, one-for-one, credit provided by the bank. Although the bank would be at risk for its share of the funding, this risk would be limited by the fact that the bank would benefit exclusively from the entire collateral or other type of security available.

Commercial banks in the Eastern Caribbean claim that even if they are presented with a viable SME project, lack of equity, collateral, or guarantees still makes such a project abnormally risky. The Matching Credit Fund would try to induce banks to lower their perceived risk by:

- linking credit facilities to project-sponsored technical assistance;
- reducing total bank exposure on a particular project by 50 percent; and
- allowing the banks to use all available collateral to secure their 50 percent participation in loans.

For example, if a bank were to contribute $500 to a $1,000 project for which only $600 worth of collateral was available, the bank would have first call on the collateral for up to 100 percent of its exposure, and would only be at risk for half of the amount it would have committed had it decided to fund the project alone. Moreover, the project would have access to technical assistance and training through all phases of project development and implementation.

At maturity, reflows would go to the local NDF, to be placed in a special revolving fund established for this credit operation.

Under the Matching Credit Fund, the banks would have primary responsibility for analyzing, approving, disbursing, administering, and collecting loans, following their usual standards and procedures.

Maximum loan size would be $100,000, the lower limit of the typical Caribbean Financial Services Corporation loans. As a consequence, up to $50,000 would be contributed by the SME Credit Fund for any single project. No minimum amount would be applied, since banks would be welcome to help fund smaller projects that may even have been funded by NDFs.

Terms would be 10 to 15 years, with grace periods of up to one year, although the maximum term could be extended with prior AID approval. Banks and the Matching Credit Fund would share equally in all maturities, i.e. banks would not, as in the case of some loans co-financed by the Caribbean Financial Services Corporation, take the shorter maturities while the project would finance the longer ones. Loan conditions will be pre-negotiated with participating banks, but should, as in the case of the NDFs, be no lower than 2 points above the base rate.

A more detailed description of the Matching Credit Fund is presented in Annex G.

Small Business Investment Company

The Small Business Investment Company (SBIC) concept draws on the lessons of a similar program launched in the United States by the Small Business Administration. Local SBICs would be established on a pilot basis in two countries under SEA, as an alternative to the Matching Credit Funds described above. Supporting local SBICs would entail minimal risk on the part of AID, since no AID funds would be committed unless:

- o the concept was endorsed by the local business community and a SBIC was formed which met pre-established guidelines to be developed by the RC;

- o the SBIC raised a capital fund from the sale of shares to local businessmen; and
- o the SBIC identified, and invested in local indigenous productive enterprises.

As described in more detail in Annex G, SBICs would be venture capital firms, the purpose of which would be to provide critical financing to SMEs, either in the form of equity, term debt, or guarantees.

Under this scheme:

- o local businesses would form a professionally managed venture capital firm to invest in companies which are potentially viable, but require additional financing in order to attract or complement commercial bank credit;
- o initial SBIC investments would make use of a SBIC's own capital funds, while SEA would commit itself to then partially replenish the SBIC's capital pool, in the form of soft loans, to complement funds provided by local investors through their purchase of SBIC shares; and
- o the SBIC would at maturity eventually repay these loans in local currency to the local NDF, or to another AID-authorized recipient.

Participating SBICs would be required to conform to certain eligibility criteria established by the RC as to the minimum level of shares subscribed and total number of shareholders, as well as to the maximum percentage of shares held by a single individual.

Individual investments would be governed by criteria established by the RC as to type of activity, industrial subsector, ownership of the business, maximum percentage of capital which could be invested in any single firm, and the maximum portion of a firm's capital funds which could be held by the SBIC.

No AID funds would be used to subsidize the operating costs of the SBIC, though the latter would have access to technical assistance and training provided under other project elements.

Projects would be analyzed by the SBIC according to its own internal review and approval criteria which have been found to be acceptable to both the RC and AID. Once the SBIC approves a particular investment, it would receive a partial reimbursement of the investment amount from SEA Project funds provided that AID and the RC determine that the assisted enterprise and the investment satisfy pre-established criteria and guidelines.

D. Project Organization and Operation

1. Project Organization

The Small Enterprise Assistance (SEA) Project will be organized on two levels in order to obtain the advantages of local initiative and control, along with the efficiencies which accompany regional level coordination of external resources.

a. National Level

National Coordinator

The focal point of project activities will be at the national level. Each country will appoint a National Coordinator (NC) who will carry out the mandate of a National Coordinating Committee (NCC) under the leadership of the elected NCC Chairperson. The responsibilities of the National Coordinator will be to establish and maintain a modest secretariat (usually consisting of the coordinator, a qualified Peace Corps small business advisor or an International Voluntary Services volunteer in a particular technical area and a secretary/bookkeeping assistant) to carry out the following types of functions:

- o provide or identify consulting assistance to local businesses, primarily in the areas of project identification, problem formulation, project analysis and planning, local market analysis, project financing, financial management, and production and marketing management;

- o specify problems which cannot be responded to locally, and facilitate the utilization of regional and extra-regional technical assistance resources through referrals to the project's regional level, along with specific preferences if available;

- broker project financing, by improving the quality of project design and presentation, and by enhancing commercial banks' understanding of, and confidence in funding proposals.

- develop and maintain a roster of locally available technical assistance and training resources;

- identify and mobilize appropriate local resources to respond to client need wherever possible;

- monitor, follow-up, and assess all SEA interventions; and

- maintain project records, including financial records, and liaise with the SEA Regional Coordinating Unit.

In the case where the NC is in fact an existing organization, it may be housed in the same location which, of course, offers certain benefits in terms of administrative overhead and start-up costs and time. In other cases, a separate office may be established. Although the former case is preferred, there may be instances in which the latter is most appropriate.

National Coordinating Committee

The National Coordinator will be hired by, and operate under the direction of, a National Coordinating Committee (NCC). Each country will be asked to set up its own National Coordinating Committee as it sees fit. The NCC could be either a broad-based local business organization where there are few private sector organizations or it could be a committee of local business organizations, i.e., representatives from a local chamber of commerce, manufacturer's association, small business association, and national development foundation. To qualify as a NCC, the committee must be representative of the general business community, and not just one or two special interests in the local business community. Instead, the NCC should be a vehicle for integrating groups within the local business community. In several instances, this committee is already in the process of formation.

The primary functions of the National Coordinating Committee are to:

- prepare and update a national work plan indicating priority activity areas, and an operating budget which specifies the level of operational funding that can be generated locally, together with the amount requested from SEA;

- identify and hire an NC who, as described above, will be responsible for providing general business planning and management guidance to client entrepreneurs, and coordinating the flow of external assistance when client needs cannot be satisfied locally;

- assist the National Coordinator to develop a roster of locally available technical assistance and training resources;

- elect a Chairperson who will supervise the work of the National Coordinator, and review requests for technical assistance and training which will require subsidies from the technical assistance and training funds; and,

- nominate one NCC member to serve as its representative on the regional SEA Advisory Council.

The NCC would be responsible for generating a series of general guidelines on national private sector development priorities, within the project's general strategic objectives, along with a national work plan and budget each year for the pursuance of these national development priorities. Such activities would enhance NC operational cohesion as well as foster consensus on the allocation of scarce project resources.

It is also critical that the NC secretariat be professionally managed and have the capacity to deal directly with at least the simpler requests for technical assistance. The NCC would thus be charged with the responsibility of identifying and hiring, with project assistance, a capable and respected local business professional as the National Coordinator to provide this first line of technical assistance as well as to take responsibility for the day-to-day management of its activities.

Finally, the NCC would be responsible for contributing at least in-kind administrative support initially, such as an office from which to work, clerical support, and a local telephone. Over time, this local contribution is expected to increase. In its application to participate in project activities, an NCC would be asked to indicate its initial and anticipated sources of local financial support.

National Coordinating Committee Chairperson

The position of Chairperson of the National Coordinating Committee is an important one. All of the islands indicated that prospective committee members are already overburdened with their responsibilities and that to be successful they would need to appoint one of their committee members to have chief responsibility for supervising the NC and the Secretariat. In several countries, it is likely that this Chairperson will also serve as the country representative on the regional SEA advisory council.

National Development Foundation

The focal point of the project's credit and investment activities at the national level for the micro level will be the National Development Foundations which will operate, and be assisted in much the same ways as they are at present. They will be asked to play a slightly expanded role in some cases as managers of the SME Matching Credit Funds. This will be a limited role, however, and will not involve them in the analysis and approval or rejection of individual loan applications, but only in insuring that banks limit their use of the funds to support eligible enterprises. The Small Business Investment Company (SBIC) activities will be run directly between the SEA and the SBIC involved on the basis of a loan agreement.

b. Regional Level

Regional Coordinator

At the regional level, SEA will be administered through a Project unit set up under the auspices of the Caribbean Association of Industry and Commerce (CAIC) in Barbados. This Regional Coordinating Unit (RCU) will be separate from the other activities of CAIC, and headed by a strong and capable leader, the Regional Coordinator (RC), who will report directly to the Executive Director of CAIC.

The primary responsibilities of the Regional Coordinator are to:

- assist the NCCs in the development and updating of national work plans, review of plans for consistency across the region and approval;

- develop and maintain a regional and extra-regional technical assistance and training resource roster, and develop appropriate agreements with organizations who specialize in the provision of such personnel and skills;

- screen requests for technical assistance and training from national offices, both to maximize regional economies of scale by coordinating and/or pooling redundant requests, and to ensure requests for large interventions are compatible with the project's overall strategic objectives;

- mobilize appropriate internal, regional, and extra-regional resources using the project's technical assistance and training funds;

- liaise with Regional Task Forces of CAIC, whose purpose is to develop particular product subsectors in regional and extra-regional markets (e.g., Agro-Processing Task Force, Furniture Task Force, Garment Task Force, etc.);

- establish an information-sharing network among the project's national coordinators, including a monthly newsletter, to facilitate regional coordination of project activities, and to ensure that non-proprietary information generated by the project is available to all;

- administer all credit and investment funds associated with the project according to the guidelines established in the grant agreement; and

- maintain project records and accounts, via a separate "project" accounting system for SEA activities, and submit required reports to RDO/C.

The RCU will be staffed by a Regional Coordinator and by three professionals in the areas of technical assistance, marketing/training and credit/investment funds management. All of these will be employed by CAIC for the purposes of the project, and will have no other duties within the organization. PADF, IVS, IESC and other contractors would operate within the framework of their contract agreements under the direction of the RC.

During the first year of the project, the RC will be assisted by a contractor specialized in the development of management and financial control systems for the project and in the utilization of technical assistance resources. Additional short-term assistance may also be provided during the project's pre-implementation stages to assist with organizational development and management questions relating to both CAIC and SEA.

SEA Advisory Council

CAIC leadership, in turn, will be ultimately responsible for implementing the project, and working closely with the Regional SEA Advisory Council. The advisory council will include one representative from each participating NCC. It will meet regularly with CAIC and USAID representatives to review project activities, advise the RC on matters of general policy, and suggest priority programs areas for the future.

The project's national and regional level organization is depicted in Figure 3 below.

FIGURE THREE

NATIONAL AND REGIONAL LEVEL ORGANIZATION

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                             * CARIBBEAN ASSOCIATION OF *
                             *   INDUSTRY AND COMMERCE  *
                             *                         *
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                                          *
               -----------------          *
              !                 !         *
           --! REGIONAL SEAP    !--       *
          !   ! ADVISORY COUNCIL !  !     *
          !   !                 !   !     *
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          !                         !     *
          !                         !     *
          ! ************      *********************      *************
          !*REGIONAL/    *   *                     *   *REGIONAL/     *
          !*EXTRA-REG.   ****** REGIONAL COORDINATOR ******EXTRA-REG.  *
          !*T.A. AND     *   *                     *   *SOURCES OF    *
          !*TRAINING     *    *********************    *FINANCING     *
          ! ************              *                 *************
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          !   !             !         *
          !   ! NATIONAL    !         *
          !--! COORDINATING !------   *
          !   ! COMMITTEE   !     !   *
          !   !             !     !   *
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            *************     ********************     *************
          !*LOCAL T.A.    *  *                    *   *LOCAL SOURCES*
          !*AND TRAINING ***** NATIONAL COORDINATOR ******OF FINANCING *
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          !                *                         *
           ----------------* LOCAL BUSINESS COMMUNITY *
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Key

***** = Operational Link
----- = Advisory Link

2. Project Operations

a. Technical Assistance and Training

Technical assistance activities will originate with a request for assistance from a local entrepreneur to the National Coordinator. The NC will first determine whether or not the entrepreneur is eligible for assistance under the project. Such determination will include that the entrepreneur is or will become prior to service delivery a member of a local business group. The local business group to which the entrepreneur belongs must must be recognized by the NCC and be an organizational member of CAIC. It will also include a determination as to whether the assistance falls within the current work plan. Once it is determined that assistance should be provided, the NC will determine whether or not the assistance can be provided by the NC itself. If, as will often be the case, only a small amount of assistance is required to help the entrepreneur determine the next steps to follow in planning, financing or carrying out his or her project, it will be provided directly by the NC staff free of charge. If more intensive assistance is required, say more than one half a person day, but NC resources are adequate to provide it directly and the cost of the requested services is less than EC$2,500, the NC and the entrepreneur will negotiate a fee for the provision of the required services. The fee will be determined in part by the nature and extent of the assistance to be provided, and in part by the ability of the entrepreneur to pay. Any fees received by the NC will be used to defray its operating costs.

If the assistance required is beyond the scope of what can be provided directly by the NC, appropriate local resources will be sought to respond to the request. If such local resources are found, the NC will negotiate a cost sharing arrangement with the entrepreneur, based again on his or her ability to pay. The amount to be paid by the NC will be drawn from its allocation of the project's technical assistance and training funds. The NC will have the authority, within the general policy framework laid down by the National Coordinating Committee, to make allocations of technical assistance and training fund resources up to a level of EC$2,500 per activity. In addition, the RC may identify certain types of requests above EC$2,500 which could be responded to on the basis of local discretion. However, normally, the NC will be required to seek approval of the RC before allocating resources above this level. Appropriate procedures will be developed during the inital stages of the project so that the NC will know how and when such requests can be justified.

In cases where the request can not be responded to from local resources, the NC will refer the request for assistance to the RC. The RC will seek to access such resources first from within the region, and then, if that fails, from outside the region. The cost sharing principle will still apply in these cases, with the approval of the entrepreneur being obtained before outside resources are brought in. Wherever possible, the RC will seek to unify requests for similar types of assistance from two or more locations, in order to maximize the efficient use of resources. If the assistance can be provided from within the RC staff, a fee will be negotiated, as in the case of assistance provided by NC staff resources.

Training activities will be handled in a similar fashion although more attention will be given to the coordination of group efforts which will include people from the various islands. More emphasis will also be placed on the programming of training activities to insure appropriate phasing of activities and a continuity of training services where required. Training activities will still be "demand driven" in the sense that they are responsive to needs expressed from the field. They will involve the payment of fees on the part of private sector participants and the use of the NCCs training fund allocations to subsidize individual participants. Thus, if potential participants see no value in a particular training program, they will have a positive reason not to participate rather than simply go along for the ride as is too often the case with training activities.

Attention will be given to coordinating SEA training activities with the Mission's other training programs such as the BIMAP component of the Regional Development Training II Project and the Regional Non-Formal Skills Training Project being implemented by the Organization of American States (OAS). Furthermore, efforts will be made to utilize these programs to the maximize extent possible in order to leverage the resources available to the SEA Project.

Although individual fees and cost sharing arrangements will vary, the NCs should insure that at least 25% of total technical assistance and training costs are paid by the entrepreneurs who request the assistance. The balance will be paid from the project's technical assistance and training funds. The percentage paid by the client will be expected to increase as the project proceeds and in the case of additional requests for assistance from the same client.

b. Credit and Investment Funds

All three of the credit and investment funds to be provided by the SEA Project will be operated under the overall management control of one division chief of the SEA RCU.

c. Micro-Enterprise Credit Funds

Micro-enterprise credit funds provided to the various NDFs and WID should be operated on the basis of individual grant agreements with the various implementing agencies.

At the start-up of project operations, each of the supported credit agencies (NDFs and WID) will be given an initial allocation of funds based upon projected need and lending opportunities. Future allocations should be based on the effectiveness with which the original funds are used, and the ability of the agency to operate within established operating criteria regarding loan collection, the collection and use of matching funds, and other factors.

A monitoring system should be established under the project to enable the Regional Coordinator to closely follow the progress of the micro-enterprise agencies, and to provide assistance where required. The monitoring system should focus on the nature and quality of the loan portfolios in order to detect at an early stage whether the Foundations are experiencing operational problems or whether the absorptive capacity of the micro-enterprise sector has been surpassed.

Funds should be transferred to the credit agencies quarterly, according to projected credit and operational needs within the limits of approved annual budgets. The project officer should insure, however, that SEA funds are not used in place of other funds which the credit agencies have obtained earlier from other sources. In other words, an NDF or WID should not be given additional USAID allocations while they are holding significant cash balances from other sources in reserve. Semi-annual audits should be undertaken to provide assurance of this.

d. SME Pilot Matching Credit Funds

The SME Pilot Matching Credit Funds should also be managed by SEA, working closely with the NDFs and the commercial banks in the countries involved. Small tranches of funds will be advanced to the NDFs, to be deposited in separate accounts in the participating commercial banks. The funds will be applied to projects following the system described earlier in Section III.C.3.

e. Small Business Investment Companies

These funds will also be managed by SEA working directly with the SBICs involved. In this case, the involvement would be somewhat different in that the SEA Project would actually be making one-time loans to SBICs developed under the impetus of this project up to a specified limit as they invest their own funds in specific enterprises.

As these loans mature over a period of 10 to 15 years, principal and interest payments will be made to local NDFs or other USAID-supported agencies designated by RDO/C at the time. This mechanism will help to avoid the problem of asking the small local companies to accept the risk of making long-term loan repayments in U.S. dollars, and at the same time prevent the Grantee from building up an excess of unallocated local currency resources. It would also provide a source of post-project revenue for the NDFs.

The success of this program depends to a very large extent, in the first instance, on whether or not private investors in the countries involved will see it as an opportunity to direct a portion of their investment funds into local productive enterprises while gaining the advantage of low-cost USAID funds. If they do not respond to the opportunity within one year, the SEA funds allocated to this activity should be either deobligated or redirected to one of the other credit programs.

3. Operational Differences in Barbados and Grenada

a. Barbados: The SEA Project is primarily aimed at assisting the OECS countries. However, a modest amount of support will directed at Barbados. More specifically, through the SEA Project, assistance will continue to be provided to the National Development Foundation (NDF) and will be provided to WID, Inc. for assistance to microenterprises. Other Non-Governmental

Organizations (NGOs) may be considered for modest amounts of assistance. Such assistance might involve providing them with long or short-term staffing from another NGO such as IVS or IESC. Barbados might also be considered for the Matching Credit Fund scheme although OECS countries would be considered first for this scheme. Due to the more advanced stage of development in Barbados, the resulting sophistication of its organizational machinery, and the limited resources available under this Project, it is not clear at this time that there is a need to establish a National Coordinating Committee (NCC) in Barbados. However, some means will be developed whereby the NDF and WID would be represented on the SEA Advisory Council.

b. Grenada: The Grenada NDF is now operating under a RDO/C/Grenada grant agreement with the Pan American Development Foundation (PADF) which terminates December 31, 1987. All the other NDFs will be directly funded from the SEA Project commencing April 1, 1985, since the termination dates for the current grants with the PADF, which supports five NDFs, and with the Dominica NDF, which receives support directly from RDO/C. Because of the difference in funding cycles for the Grenada NDF, it will be necessary to pay particular attention to coordinating the reporting, project monitoring and evaluation features under SEA with those of the ongoing grant to the Grenada NDF. This will be accomplished by working closely with RDO/C/Grenada, the Grenada NDF and PADF and will include the development of joint monitoring, evaluation, and financial reporting systems.

IV. PROJECT ANALYSIS

A. General Constraints to Project Implementation

Development of a successful project to assist the sector will be no simple task. Substantial redeployment and development of institutional capability will be required. These institutions will be required to assist micro, small and medium-scale enterprise with the removal of a full range of constraints. These include such issues as project appraisal and development, sourcing/development of reliable local/regional/extra-regional raw materials, development of business management, including financial management capability, development of new local/regional/extra-regional markets, sourcing of financing, development of support infrastructure related to movement and storage of products, development of services required to allow businesses to operate efficiently (e.g. accounting, repair, brokering, shipping, etc.), training of staff, development of local consultant capacity to respond to individual problems, reduction/removal of policy constraints, etc.

While in larger economies with more sophisticated private sectors, it is possible to focus on only one of these elements with some hope of meaningful impact, within the Caribbean context such a single focus is not possible. All must be addressed simultaneously. This places tremendous pressure on existing institutional capability. The likelihood of breakdown in the service delivery systems increases substantially.

A solution to this problem is to bring in substantial amounts of extra-regional technical/institutional support. This solution, however, presents new difficulties. It delays the development of local capacity. It increases the likelihood of development/delivery of inappropriate and expensive services.

Preferable, then, is the utilization of existing Regional service delivery institutions, which are provided with sufficient support, both local and extra-regional, to assure their capacity to respond to the needs of the sector, while growing at a healthy pace. This approach requires considerable delicacy. A dual agenda is in place: 1) provision of assistance to local businesses; and 2) development of local institutions. If care is not taken, one or the other element of this dual agenda may receive insufficient support. Either in the interest of reaching the clients the institution is pushed to expand too rapidly or in the interest of protecting the institution, the client needs are neglected. A continual balancing would be required to utilize this approach successfully.

In many respects the project described in the preceding pages is unique and faces all of the unknown associated with that status. The decision has been made to mount a substantial and comprehensive effort to assist micro, small and medium-scale enterprise. The Mission decided to utilize local institutions for project implementation. Although many of the project elements, such as technical assistance and training, have been implemented numerous times in other settings, the particular institutional/environmental setting as well as the service delivery mix must be said to be unprecedented.

As a result, the project must, of necessity, be designed as a conscious experiment. Design work has been carried out with the greatest possible care. However, it is anticipated that major redesign may be required as the project proceeds based on experience. In this context, careful project monitoring and evaluation as well as intensive Mission project management will be a critical part of project development and implementation. A parallel Mission project will undertake design and installation of a systematic project monitoring and evaluation system. A full-time Mission project manager is assigned to the project. A substantial amount of professional management support of various project elements is built into the system.

In light of the very substantial institutional constraints, these inputs are considered the minimum necessary for project success. Adjustments throughout the project life will seek to assure that these and other inputs are also sufficient to assure project success.

B. Technical Analysis

The Role of Small- and Medium-Scale Enterprises in the Eastern Caribbean

As is the case in most developing countries, small- and medium-scale enterprises (SMEs) are critical components of the economies of the Eastern Caribbean.

In general, SMEs contribute significantly to expanded employment opportunities and higher incomes, and they are relatively efficient users of capital and credit. In fact, studies such as the World Bank's Sector Policy Paper, "Employment and Development of Small Enterprises," (February 1978) indicate that SMEs provide several times the number of jobs per investment dollar than large businesses in developing countries.

In addition, SMEs are often the source of training for other sectors of the economy. They frequently provide the setting where both skills and the discipline of the workplace are first learned. SMEs, particularly in the repair and service areas, also provide a necessary foundation for the development of larger enterprises.

Finally, SMEs play an important societal role: responding to local needs and providing a source of services, products, and meeting places which are not available elsewhere; representing an important part of the entrepreneurial base; and providing a source of social stability.

Although studies of the region provide little information on the number, size, and economic impact of these businesses, the following estimates have been compiled:

- o small businesses, that is, businesses with less than 10 employees, sales less than U.S.$35,000, and assets less than U.S.$15,000, comprise an average of 10 to 14 percent of the regional GDP (over 40 percent in some countries), and 23 to 26 percent of the region's labor force; and
- o these totals approximately double when medium-sized enterprises are included, that is, enterprises with 10 to 50 employees, sales in the U.S.$35,000 to U.S.$250,000 range, and up to U.S.$75,000 in assets.

Constraints to Enterprise Development in the Eastern Caribbean

The primary constraint to enterprise development in the Eastern Caribbean can be summarized in a word: smallness. The OECS countries are small by any standard, and thus, lack both the critical mass of resources to supply a viable market, and the market demand to support a viable level of production. Thus, the Eastern Caribbean states suffer from severe diseconomies of scale, whereby most investments far outweigh their expected returns.

The smallness of these countries is exacerbated by their fragmentation. While no single country could normally achieve a financially viable level of production or consumption to support substantial investment in high value added activities, regional pooling of resources and markets might achieve this in specialized lines. However, to date, regional coordination of production and marketing have been extremely difficult to implement, and such efforts have traditionally suffered most when in greatest need, namely during periods of economic contraction.

Finally, the out-migration to North America and Europe of the region's most skilled and aggressive entrepreneurs has sharply depleted the human resource base with which to exploit the limited growth opportunities in these small and fragmented economies.

However, although these contraints are deep rooted, structural problems not easily amenable to relatively short-term project interventions, more addressable constraints to enterprise development have hindered the growth of small and medium scale businesses within these tiny, fragmented economies. These constraints include:

- o local entrepreneurs' lack of skill in identifying the few viable opportunities that do exist;

- o local entrepreneurs' lack of skill in preparing projects for formal appraisal by prospective investors;

- o local entrepreneurs' unfamiliarity with, and difficulty in accessing the technical assistance and training resources necessary to upgrade their production, marketing, and management skills;

- o lack of national and regional coordination in providing requisite technical assistance and training services;

- o commercial banks' perceived risk of, and thus extreme hesitance to invest in, small- and medium-scale industrial and manufacturing businesses; and

- o these enterprises' lack of bankability, due to insufficient equity, collateral, or guarantees.

It is the aforementioned constraints that the Small Enterprise Assistance Project is designed to address.

Project Response to Enterprise Development Constraints

Most of the entrepreneurs and bank officers surveyed in the Eastern Caribbean believed that, although quite limited, there were indeed opportunities for the development of small- and medium-scale indigenous productive enterprises in Barbados and all OECS countries.

Moreover, most agreed that the timely availability of appropriate technical assistance and training services at the local level would address most of the constraints to developing these enterprises, including many of the problems in raising financing. In arriving at these conclusions, there was a consensus that:

- a plethora of technical assistance and training services currently existed, but their services were neither easily accessible, nor coordinated with each other;

- lack of project bankability, not a shortage of liquidity, was the primary financing constraint; and

- the greatest general opportunities for growth, although in various mixes in each country, were agriculture and tourist-related businesses, such as agroprocessing, hotel supply manufacturers, and tourist-related services.

Thus, the Small Enterprise Assistance Project's emphasis is on the timely and appropriate application of technical assistance to increase both the bankability and viability of small- and medium-scale productive enterprises.

As stated in "Project Elements: Technical Assistance," the provision of such technical assistance would be:

- responsive rather than prognostic, that is, driven by market demand instead of tightly pre-programmed;

- offered for a fee to cover a portion of assistance costs, under the "no pay, no play" maxim;

- based on practical, personalized interventions, and not on generalized, prepackaged activities; and

- structured around accessing and networking existing local, regional, and extra-regional resources, rather than duplicating already existing, if not available, services.

Such technical assistance would address all phases of the project cycle, namely:

- the identification of business opportunities;
- preparation of these opportunities for financing;
- financial brokering;
- production, marketing, and management assistance; and
- project assessment and follow-on strategic planning.

To complement the above-described technical assistance, training programs would be offered which stressed:

- the practical over the theoretical;
- hands-on, shop floor activities over formal lectures;
- worker visitation programs over abstract expositions;
- continuity and progressive skills enhancement over one- shot interventions; and
- performance sensitization over proselytization.

As described in "Project Elements: Training," the primary recipients of such training would be:

- small- and medium-scale entrepreneurs;
- small- and medium-scale enterprise production workers and marketing staff;
- commercial bank staff;
- National Coordinator staff;
- Regional Coordinator staff; and
- National Development and Women in Development employees.

As with project-sponsored technical assistance, the emphasis would be on utilization of existing resources, such as the Barbados Institute of Management and Productivity, and the Foundation for International Training. Rather than focus on the creation of new facilities to provide training, the project would focus on matching existing local, regional, and extra-regional resources with requests for training from small and medium enterprises in the OECS countries.

Attached is a summary of existing technical assistance and training institutions and services for small- and medium-scale enterprises in the Eastern Caribbean, which would form the foundation of the Small Enterprise Assistance Project's technical assistance and training resource base (see Table 1).

TABLE 1

SUMMARY OF EXISTING ASSISTANCE INSTITUTIONS FOR SMALL BUSINESSES

Antigua	FOCUS: Local	FOCUS: Regional	PRIMARY TYPE OF ASSISTANCE: Loans	Loan Asst.	Tech. Asst.	Bus. Asst.	Train- ing	Policy	Tax Incentives	COMMENTS
- Antigua/Barbuda Development Bank (ABDB)	x		x	x						Small business/farmers hesitant to utilize ABDB services
- International Voluntary Services		x			x	x				Began in 1985; Limited services presently but scope for significant contribution
- Women's Desk of the Ministry of Education	x		x	x						Very Limited Resources, good rapport with both government and community
- Ministry of Economic Development	x		x	x	x				x	Oriented to larger businesses
- Caribbean Christian Council (CCC formerly CADEC)		x				x	x			Rural focus; very limited resources
- Lurijos Management Consultants Ltd.		x				x	x			For profit management consultants; provide agricultural production statistics, bookkeeping services
- National Development Foundation	x		x	x	x					Begun March 1985 has disbursed 20+ loans
- Chamber of Commerce	x				x		x	x		Primarily lobbying group for commercial sector; has small business committee; agricultural committee
- Manufacturers Association	x							x		Represents larger firms
- Small Farmers Association	x				x		x	x		Minimal resources; working with Chamber on project with Rochester NY Chamber of Commerce.

SUMMARY OF EXISTING ASSISTANCE INSTITUTIONS FOR SMALL BUSINESSES

	FOCUS		PRIMARY TYPE OF ASSISTANCE							
	Local	Regional	Loans	Loan Asst.	Tech. Asst.	Bus. Asst.	Train-ing	Policy	Tax Incentives	COMMENTS
Dominica										
- Dominica Agricultural & Industrial Dev. Bank (AID)	x		x							Only 4.6% of loans went to small businesses; small farm loan scheme
- Dominican Industrial Development Corp. (IDC)	x								x	Focus is primarily with large businesses
- National Development Foundation (NDF)	x		x		x		x			Perhaps model local institution but lacking staff and resources
- Management Consultants Limited	x			x		x	x			For profit management consultancy firm; works with NDF on training and T.A. modules
- Small Business Association (SBA)	x							x		Not very active
- Dominican Hucksters Association	x					x		x		Provides management and marketing training.
- Cooperative Unit Ministry of Agriculture	x						x			Provides advice and training in agribusiness and fisheries; works only with registered Coops.
- Giraudel Farming School	x						x			Training for small farmers in all aspects of the farming business.
- Women's Bureau	x						x			Self-help projects for women; research on issues affecting women
- Dominican Association of Industry and Commerce (DAIC)	x				x		x	x		Principally lobbying group for larger businesses
- Community Development Div. (CDD) Small Business Section	x		x		x	x	x			Only two staff members. Problem with loan fund
- Youth Development Division (Ministry of Education)	x		x				x			Active training programs
- Cooperative Credit Union	x		x			x				Training to 22 credit unions who loan to small businesses.
- Small Projects Assistance Team Limited (SPAT)	x						x			Training to small business; marketing

SUMMARY OF ASSISTANCE TO SMALL BUSINESSES

	FOCUS		PRIMARY TYPE OF ASSISTANCE							
	Local	Regional	Loans	Loan Asst.	Tech. Asst.	Bus. Asst.	Training	Policy	Tax Incentives	COMMENTS
Barbados										
– Ministry of Trade & Industry	x							x	x	Broad industrial development but little attention to small businesses
– B'dos Industrial Development Corporation (IDC)	x					x				Mostly investment promotion oriented to larger enterprise; recent attention to small businesses
– B'dos Development Bank (BDB)	x		x							Provide loans, equity investments and loan guarantees; operates with strict loan standards
– Caribbean Association of Industry and Commerce (CAIC)		x			x	x	x	x		Business training and technical assistance
– B'dos Institute of Management and Productivity (BIMAP)	x	x				x	x			Training courses, mostly to medium and larger businesses
– National Development Foundation of Barbados (NDFB)	x		x							Loans to small businesses
– Barbados Manufacturers Association (BMA)	x							x		Principally lobbying group; coordinates some joint purchasing activities and conducts some seminars
– Small Business Assoc. (SBA)	x				x	x	x	x		No permanent staff
– Partners of the Americas		x				x				Intended to improve access to U.S. markets
– Agricultural Commodity Trading Company (AGCTCO)		x				x				Promotes and markets agricultural commodities locally
– Christian Action for Development in the Caribbean (CADEC, now CCC)		x				x	x			Rural focus, limited resources
– National Organization of Women (NOW)		x					x			Offers courses and scholarships; sponsors training seminars
– Women in Development (WID)	x	x	x			x	x			Offers wide assistance to small businesses owned by women.
– National Training Board	x						x			General skills training, mainly self-employment for youth
– Barclays Development Fund		x	x		x	x	x			Regional program
– Barbados Chamber of Commerce & Industry	x			x		x		x		Focus on larger businesses
Montserrat										
– Chamber of Commerce	x							x		Represents primarily commercial interests; recently hired Executive Director
– Manufacturers Association	x									In formation as of August 1985

SUMMARY OF ASSISTANCE TO SMALL BUSINESSES

	FOCUS		PRIMARY TYPE OF ASSISTANCE							
	Local	Regional	Loans	Loan Asst.	Tech. Asst.	Bus. Asst.	Train-ing	Policy	Tax Incentives	COMMENTS
Grenada										
- National Development Foundation of Grenada (NDFG)	x		x		x	x	x			Started in January 1985
- Agency for Rural Transformation	x					x	x			Focus on youth
- Manufacturers Council	x							x		Primarily a lobbying group
- Grencraft	x					x	x			Marketing programs for goods produced in government training programs
- Employers Federation	x				x	x				Advice and support to all sized businesses; represents private sector in industrial disputes
- Minor Spices Co-op	x						x			Cooperative marketing
- Corps of Entrepreneurs	x							x		Entrepreneurial training; does not enjoy large support
- National Marketing & Import Board	x					x				Marketing support for firms selling in local market
- Grenada Chamber of Commerce	x				x		x	x		No separate small business arm
- Grenada Development Bank	x		x							Active small business loan program, branches in countryside
St. Kitts-Nevis										
- Chamber of Commerce and Industry	x				x		x	x		Principally represents traditional commercial groupings
- Development Bank (NDB)	x		x	x						Wants to develop small business window
- Foundation for National Development	x		x	x	x	x				Begun in February, 1985; has not yet begun disbursing
- Manufacturers Association					x		x			Conducts technical seminars; works within Chamber
- Small Business Association	x					x	x			Principally a lobbying group, works within Chamber
- Department of Community Development	x		x	x	x					Small Business Unit with Peace Corps advisor

SUMMARY OF ASSISTANCE TO SMALL BUSINESSES

	FOCUS		PRIMARY TYPE OF ASSISTANCE							
	Local	Regional	Loans	Loan Asst.	Tech. Asst.	Bus. Asst.	Training	Policy	Tax Incentives	COMMENTS
St. Lucia										
- Chamber of Commerce	x				x		x	x		Focus on larger businesses
- St. Lucia Manufacturers Assoc.	x					x				
- Small Business Association	x							x		Principally a lobbying group for SB
- Development Bank	x		x	x		x				Loans range from $3000 to EC$250,000; would like to improve service medium business sector
- Cooperative Bank	x		x							Commercial loans; principally small/medium business oriented
- National Research & Development Foundation	x					x	x			Conducts research, training activities and and operates as NDF
- Cooperative League of Credit Unions	x		x							Largely personal loans, growing organization
- Boys Training School	x						x			Delinquent youth training
- OAS Skills Training Program	x						x			Skills training primarily for youth
- Community Development Divison	x		x	x						Reorganizing Revolving Loan fund provided by BDD
St. Vincent										
- National Development Foundation	x		x	x	x	x	x			In process of reorganization
- Organizational for Rural Development (ORD)	x				x		x			Broad agricultural assistance for small farmers
- Chamber of Industry and Commerce	x				x		x	x		Focus on larger businesses
- Development Corp. (DEVCO)	x				x					Development of industrial estates; poor track record
- Community Development Div.	x		x							Runs small business loan program with grant from BDD; insufficient staff; loan fund inadequate
- Furniture Manufacturers Assoc.	x				x					Cooperative equipment purchasing and use
- Traffickers Association	x					x				Organization of traders; seeks marketing opportunities

C. Financial and Credit Analysis

Description and Functioning of Local Financial Markets

Eastern Caribbean countries belong to two separate financial systems, each with its own currency and monetary authority:

- o the system regulated by the Eastern Caribbean Central Bank (ECCB), which uses the Eastern Caribbean Dollar (E.C. Dollar) as its currency and comprises the following 8 countries or territories: Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines, plus Anguilla;

- o the Barbados financial system, which uses the Barbados Dollar as its currency and is regulated by the Central Bank of Barbados.

The ECCB plays only a limited role in regulating monetary policy in Eastern Caribbean countries, since all money in circulation must be backed by a given amount of foreign monetary assets. It thus acts chiefly as a bookkeeper, coordinating and monitoring monetary markets in the countries under its jurisdiction.

Generally speaking, monetary policy in ECCB countries and Barbados is moderate, and is reflected in a level of inflation which, albeit higher than in the U.S., is still quite low. Although recent country to country figures are not available in all cases, they are not believed to be substantially different than the 4.1 percent figure registered in Barbados for the latest 12-month period. They are given as reference, to help determine later in this section how realistic the current interest rate structures in the region are:

- 2.7 percent in Antigua and Barbuda (1983)

- 5.9 percent in St. Kitts and Nevis (1982)

- 4.7 percent in Montserrat (1983)

- 4.4 percent in Dominica (1982, down from 29.8 percent in 1980)

- 6.1 percent in Grenada (1983)

- 4.1 percent in Barbados (June 1984 to June 1985)

Prevailing interest rates on deposits vary from 3-5 percent on savings accounts, to 4-7 percent on term deposits (September 1985 figures). The above rates appear to be slightly negative in real terms (below inflation levels), which should be considered as a disincentive to saving. However, this appears to reflect a deliberate policy on the part of the banks, since they were paying rates as high as 8-9 percent earlier in 1985, when liquidity was tight and they were striving to raise new resources. Liquidity of financial markets has since eased, and is considered ample at present throughout the region.

Base (prime) lending rates are around 12 percent in ECCB countries, with two exceptions: they are as low as 10 percent in Montserrat, and development banks in the region lend at 11 percent to certain priority sectors. Most business clients are charged one to two points above base rate, i.e. 13-14 percent. In Barbados, banks are severely constrained by Central Bank regulations, which currently limit average yield on their total portfolio to 10 percent. As a consequence, the base rate for premium customers is currently around 9 percent, with business clients being charged 10-11 percent. The above rates leave the banks with healthy spreads between cost of funds and return on their loans in ECCB countries, where reserve requirements are a low 6 percent. This is not the case in Barbados, where bank spreads are being squeezed by the overall cap on portfolio yields on one hand, and by a high 27 percent reserve requirement on the other (the effect of these reserves on a 5 percent savings account is basically to push the effective cost of those funds to the bank to close to 7 percent).

Local financial markets are characterized by the dominance of private commercial banks. Although most Eastern Caribbean countries now have established development banks, the latter have not had a significant impact on the local economies as yet. Most commercial banks in the region are subsidiaries of foreign banks. Barclays Bank established its first operation in the Caribbean 150 years ago, followed by the Royal Bank of Canada in 1911. More recently, several other banks have established operations, including the Bank of Nova Scotia and the Canadian Imperial Bank. Total deposits held by commercial banks in the seven OECS countries was equivalent to U.S.$498.5 million as of March 1985 (at 2.68 E.C. Dollar per U.S. Dollar), while total loans outstanding amounted to U.S.$409.3 million. Equivalent figures for Barbados were U.S. Dollars 550.5 million and 413.4 million (June 1985 figures).

Bank Lending Policies and Activity

ECCB statistics show that commercial banks do not limit their lending activity to short-term loans and overdrafts. As of March 1985, short-term loans of under one year and overdrafts represented only 39 percent of total lending, while loans of 1-3 years represented 12 percent of the total and loans with terms of over 3 years a high 49 percent. Average loan terms appear to be somewhat shorter in Barbados, where respective figures were 50 percent, 9 percent and 41 percent.

A breakdown of lending by sector or type of activity in ECCB countries shows that as much as 30 percent went to personal loans (chiefly house and land purchase and durable consumer goods), 15 percent to Government and statutory entities, 14 percent to distribution and trade, and 7 percent each to manufacturing, to tourism, and to construction and land development. Only 3 percent of total financing went to agriculture, reflecting the banks' traditional aversion to that sector. In Barbados, personal loans represent 20 percent of outstandings, manufacturing and distribution 15 percent each, and tourism 12 percent. An analysis by type of borrower indicates that in ECCB countries 43 percent of loans went to individuals (reflecting the high ratio of consumer lending) and 35 percent to business firms. Only 2 percent of the total benefitted non-residents.

No breakdown of the aggregate loan portfolio is available by loan size. It is thus not possible to estimate loan amounts and number of loans granted to small and medium enterprises. It is however apparent that banks concentrate their lending activity on a larger, more established clientele that they are more familiar with, limiting their lending to smaller firms to cases where the risk involved is limited and ample "acceptable" collateral is available.

Lending policies are generally conservative and based on high collateral requirements of around 200 percent of loan amount in the case of non-fixed assets (receivables, inventory, machinery and other equipment), and 120-150 percent in the case of land and real estate (in many cases, banks may not even fund a project in the absence of security in the form of real estate). In cases where equipment or other assets are indeed pledged as security, they may also be valued at cost or disposal value, and not at market value. To summarize, commercial banks basically limit their role to secured lending, and will, in most cases, not provide credit to a viable project if the type of collateral they require is not available.

Availability of Credit to the Smaller Entrepreneur

Small and Medium Enterprises

The vast majority of firms in the region tend to fall in the small to medium category by traditional standards. Local markets are of very modest size, and larger companies are limited to a handful of firms dealing in regional trade and manufacturing or with export markets, or those set up by large foreign entities. Since banks do not limit their lending to these larger companies but also lend to a smaller clientele, many firms that would fall in the small to medium category in a different environment do have regular access to credit. However, if one applies the definition of SMEs adopted in this project (firms with fewer than 50 employees), then availability of institutional credit to SMEs in the Eastern Caribbean region can be categorized as very restricted.

This situation results from a combination of two factors at the institutional level: (1) the conservative attitude of commercial banks, as described above; and (2) the very recent status and general weakness of national development banks, which in many LDCs are intended to fill in the gap left by private banks, but have been unable to play that role for SMEs in the region.

Availability of commercial bank credit to the smaller businessperson is a function of two main factors:

- the quality and feasibility of the project to be financed; and

- the risk implied from the lender's viewpoint.

Each of these factors entails a different set of constraints which will limit or preclude access to traditional institutional credit on the part of the smaller entrepreneur. The quality and feasibility of a project presented to a bank will be closely analyzed during the loan review process. This not only implies that the project should be sound from a technical, marketing, financial and management point of view. It also means that the entrepreneur will need to present it to the bank in a convincing package. In that respect, there is a vast difference between a feasible project and a bankable one, and the absence of a good, solid project document prepared for the bank is too often the missing link. Information presented to the bank has to be comprehensive, and all the aspects mentioned above need to be covered and to fit together in a logical way, leaving as little uncertainty as possible as to project outcome.

The smaller entrepreneur is usually ill-equipped to prepare such a comprehensive project document in the absence of outside help. The areas where he is most wanting are usually market assessment, financial planning and feasibility study preparation.

Undue risk from the lender's viewpoint is also a major constraint for the smaller entrepreneur. Three factors put him at a disadvantage when approaching a bank:

- his lack of a past credit history with that or any other bank, a situation which a banker will fairly easily interpret as uncreditworthiness;

- the borrower's lack of equity or of a permanent capital base, which implies that the bank would have to finance 80 to 100 percent of the cost of the project (banks ordinarily ask their clients to maintain debt-to-equity ratios under 2); and

- lack of acceptable collateral, since SME owners usually have limited property or other personal assets to pledge, and few or no relatives or associates that could provide substantial third-party guarantees to the bank.

Microenterprises

The constraints faced by the owner of a microenterprise in his pursuit of institutional credit are of similar nature, but of even greater magnitude than in the case of SMEs. They can be summarized as follows:

- severe lack of equity or working capital to initiate or expand operations;

- almost total lack of collateral to offer to potential lenders;

- inability to grasp and present in rational form some of the more technical aspects of his project, particularly those relating to market, cost accounting and general project feasibility; and

- the usually informal (non-legal) nature of the business.

As a consequence, the microentrepreneur stands a very small chance of receiving any type of credit from traditional institutional sources, even under the best of circumstances. The only hope in this respect is that the business will grow to the extent that it may one day be considered as potentially viable by the commercial banks.

The Demand for Credit

A formal analysis of the demand for credit has not been undertaken at the level of the small entrepreneur in the Eastern Caribbean region. Demand for credit at the level of the small entrepreneur can be inferred either from a macroeconomic analysis, extrapolating from production flows and investment patterns, or from an analysis of financial needs at enterprise level. In the latter case, random interviews are conducted, and potential demand is extrapolated from an estimate of the total SME universe and from sectoral data.

In the absence of such data, the design team has undertaken a qualitative rather than quantitative approach in analyzing actual demand. From interviews conducted in OECS countries and in Barbados with Government officials, Chambers of Commerce, Manufacturers Associations, National Development Foundations and other organizations as well as with micro, small, and medium enterprises, the team has determined that there is indeed an unmet demand for credit both at the level of SMEs and of microenterprises.

However, the intention was not to determine how much credit was indeed needed by entrepreneurs to finance current or projected activities, but to estimate the demand that corresponded to viable projects. It was found that many projects conceived by local entrepreneurs are at best marginally viable, due particularly to the very restricted national markets in which they evolved. Once these basically non-viable projects are discarded, the design team concluded that actual demand for SME credit to finance viable projects was quite limited.

In the case of microenterprises, the estimated demand for credit does not call for a large increase in the amount of funding already flowing through the NDFs. In the case of SMEs, the team did not see the need to establish a large credit fund under the project. Thus, the credit component of SEAP is of limited size, and is seen more as a complement to the training and technical assistance activities, helping fill in a critical gap when needed.

Analysis of Alternative Mechanisms

Small and Medium Enterprises

Four basic mechanisms to channel credit to SMEs were reviewed by the design team. The first three were designed to entice commercial banks to commit their own resources to the targetted client group, while the fourth would use National Development Foundations and WID to channel funds to sub-borrowers. These four mechanisms are:

- o the setting-up of a matching fund mechanism, whereby the project would match one-for-one credit made available by banks, but would let the latter benefit from the entire collateral available;

- o the creation of national Small Business Investment Companies (SBICs), to be capitalized jointly by the local business community and AID; the SBICs would take equity positions, extend term loans or provide guarantees to selected SMEs, thereby facilitating their access to commercial bank credit;

- o the setting-up of a Guarantee Fund to cover most of the risk taken by banks in their SME lending activities; and

- o the channeling of funds through the National Development Foundations.

Table 2 summarizes the advantages and constraints related to each alternative mechanism. Each alternative is reviewed in more detail below.

TABLE 2

SUMMARY OF ALTERNATIVE MECHANISMS FOR THE FINANCING OF SMALL & MEDIUM ENTERPRISES IN THE EASTERN CARIBBEAN

Alternative	Advantages	Constraints
1. Matching Fund Mechanism	. Funds are leveraged from commercial banks. . Commercial banks are responsible for managing loan portfolio and for collecting loans.	. No collateral is available to SME Credit Fund.
2. Small Business Investment Companies	. Funds are leveraged from the local business community for investment in SMEs and from commercial banks for credit. . SMEs have access to permanent-type financing	. Mechanism introduces additional intermediary institution. . Local business community may not support SBIC concept.
3. Loan Guarantee Fund	. Leverage funds from commercial banks.	. Clear-cut criteria for functioning of Fund are hard to establish. . Guarantee funds fail to change attitude of commercial banks.
4. Use National Development Foundations as Intermediaries	. NDFs are already involved in micro-enterprise lending component.	. NDFs do not have focus and administrative staff capability to manage SME loan portfolio.

Alternative #1: The Matching Fund Program

This program is designed to reduce the banks' perceived risk by: (1) asking them to lend only half the funding required for a particular project, the other half being financed through project money; and (2) giving them access to the entire collateral available. Since banks often elect to cofinance with other lenders when they perceive the risk as being higher, and since lack of collateral is a major impediment for the entrepreneur when dealing with banks, this mechanism will entice banks to commit their own funds to this target group. Indeed, the initial reaction of the local banking community has been favorable.

Should the enticements described above prove insufficient for the banks, an additional enticement could be added, whereby credit financed by the project would be subordinated to the bank's debt. However, this should only represent a fall-back position, since banks should be expected to participate without benefitting from this additional incentive.

The only disadvantage of this mechanism is that no collateral will be available to cover USAID's share of the loan. However, this inconvenience should be more than compensated by the fact that banks will be actually monitoring and collecting these loans, which they do more efficiently than any other potential implementing institution on the market.

Alternative #2: Small Business Investments Companies (SBICs)

The SBIC concept is presented in Annex G to this project paper. The major advantages offered by SBICs include the following:

- they are locally controlled private companies risking their own money while attracting increasing amounts of local commercial bank financing; and
- they are free to be flexible and creative in the types of investments which can be undertaken to complement and attract financing from other sources.

The availability of low-cost USAID financing to match local investment funds serves to increase the potential return to SBIC shareholders and should attract their participation. This will serve as a local investment outlet for private funds which are now either being consumed, invested in real assets or deposited off-shore.

Although there is no guarantee that local shareholders will take advantage of the opportunity offered by the SBIC mechanism, USAID's risk in presenting it is low as no funds are allocated to it until local SBICs are formed and begin their investment program on their own.

It should be noted that the Central Bank of Barbados is in the process of sponsoring its own venture capital firm to provide equity to selected SMEs. The firm would be initially organized as a wholly-owned subsidiary of the Central Bank, and be capitalized at 1,000,000 Barbados Dollars (U.S.$500,000). The intention is to attract banks or other financial institutions to subsequently become shareholders in the firm. Since this scheme is very similar to the SBIC concept, it would be worthwhile for AID to follow this experiment closely, and try out its own SBIC in other islands.

Alternative #3: Loan Guarantee Fund

The simplest mechanism to get commercial banks to lend to a client group they have shunned because of the high perceived risk is to set up a Guarantee Fund covering at least partially potential losses that may incur. Aside from addressing very directly the issue of risk, this mechanism is particularly attractive to the donor agency because all loan transactions from loan analysis down to collection are handled by the participating bank, with no funding, and thus no disbursement involved on the part of the donor-sponsored fund (except of course in case of default of the sub-borrower).

However, guarantee funds also imply major obstacles, among which:

- it has always proven very difficult to determine when exactly a subborrower should be declared in default, allowing the bank to collect on its guarantee;

- more fundamentally, there is always a level of distrust between the Fund and the participating banks, with the Fund tending to feel that the banks have not tried hard enough to collect on their loan because they could collect on the guarantee anyway, and the banks usually feeling that the Fund is trying its utmost not to honor its commitment to compensate them for any losses incurred.

As a result, Guarantee Funds established in LDCs have not worked. A recent World Bank review of five guarantee schemes it had helped establish showed that they had all failed in achieving the set goals. In all cases, the participating banks still tended to require the same type of collateral that they demanded before the establishment of the funds, thereby defeating the very purpose of the program. It is the design team's belief that guarantee funds do not represent a practical alternative to involve the banks in lending to small and medium enteprises in the region.

Alternative #4: Using the National Development Foundations

Another seemingly practical alternative in the context of the project would be to use NDFs as channels of funds to SMEs. The major advantage would be that the NDFs will already be handling the Microenterprise Credit Fund, and that one single institution would thus be managing both credit programs in a given country.

However, it is also apparent that the NDFs would be overextended both from an administrative/management and from a staff competence point of view. All NDFs in the region except the Dominica Foundation are recently established institutions with still limited experience in managing a credit program, and lack of trained staff to analyze larger and possibly more complex loan applications presented by SMEs. It would thus be unwise to ask them to manage an SME loan portfolio before they learn to efficiently manage their smaller microenterprise clients.

Conclusion

After carefully reviewing the above alternatives, the design team believes the Matching Fund program and the Small Business Investment Company offer the best potential to successfully carry out a credit program in favor of small and medium enterprise. Both mechanisms would allow the project to leverage funds from commercial banks, and would rely on these banks to manage this new clientele according to their usual efficiency criteria. It is therefore recommended that each of these mechanisms be tried in selected countries, and that based on their success and acceptance by local banks they be replicated throughout the region.

Microenterprises

National Development Foundations and WID are about the only institutions providing credit and other assistance to microenterprises in the region. It is thus logical to use them as intermediaries to channel loan funds to that particular clientele. An unresolved issue, however, is how the NDFs should manage their loan portfolio. Following the lead of the Dominica Foundation, other NDFs in the region have chosen to rely on participating commercial banks to manage loans on their behalf, disbursing individual loans approved by the NDF, monitoring the clients and collecting at maturity.

Although banks have been carrying out this function willingly and, to all appearances efficiently, the service involves a financial cost, which in the case of Dominica is 3 percent of loan amount per year. NDFs in the region now have to decide whether they will go on relying on the banks to manage their portfolio or whether they will chose to perform this task themselves.

An initial review of this issue led to the conclusion that NDFs should move cautiously, if at all, in that direction. The participating banks are presently providing a valuable service at reasonable cost, and the NDFs should only elect to manage their own loans if: (1) they could do it more cheaply; and (2) more efficiently. This is not the case today: a survey of the Dominica Foundation's situation indicated for instance that the additional cost involved would be around E.C.$55,000 per year, against a saving of only E.C.$15,000 representing current fees paid to banks. Besides, the Director of the Foundation herself believes that the "reverence power" of the banks would make it difficult for the Foundation to even match the banks' collection performance. It would seem appropriate for the NDFs to first build up their network of field officers and their management capacity before taking over full responsibility for managing their own portfolio.

Cost Recovery Issues

Considerable attention has been given by AID and other donors recently to cost recovery issues in project design and implementation. Regarding SEAP, issues of cost recovery can best be divided into two broad categories: replenishment of operating expenses, and maintenance of the real value of credit funds.

1. Operating Expenses

Operating expenses incurred in the delivery to SMEs of project-sponsored technical assistance, training, and credit will be partially recovered via fees charged to participating businesses, the balance being underwritten by project funds. The project's financial plan calls for an average of 25 percent cost recovery, via either a sliding scale or fixed fee system for SME technical assistance and training services. The SME credit and investment fund, if run as proposed, will actually cover all administrative costs and grow in real terms, as described below.

Operating expenses incurred in the delivery of the proposed package of technical assistance and credit to microenterprises will be heavily subsidized by project funds. Although the project would like all businesses, regardless of size, to deal with project-sponsored assistance on a commercial basis, the cost of providing assistance to microenterprises will be a relatively expensive endeavor if administrative costs are compared both with the scale and volume of assistance extended, and with the ability of assisted microenterprises to bear these costs. That is, great amounts of time and energy will be required to identify, prepare, and monitor very small, relatively short-term loans predominantly for marginally viable businesses. Consequently, although NDF and WID clients will have to pay a fee for these services, the fee will be included more as a matter of principle than cost recovery.

2. Maintenance of Value

In the past few years, AID has attempted to ensure that credit funds benefitting from its support did not decapitalize over time as a result of subsidized interest rates or high levels of bad debt.

In the case of small and medium enterprises, the maintenance of value of a credit fund is contingent upon three key elements: (1) applying positive interest rates in real terms (above inflation); (2) achieving low levels of bad debt; and (3) maintaining administrative costs (the cost of lending) at modest levels.

To date, much emphasis has been placed on applying positive interest rates in real terms, but too little on the issue of loan collection. By using commercial banks to channel funds to the target SME group, the project would precisely aim at achieving the usually high collection rates of these banks, thereby avoiding the high bad debt levels associated with development banks and other intermediary institutions often used by AID.

The SME Credit Program

Table 3 shows the projected value of the SME Matching Fund based on the following assumptions:

- o 12 percent yearly interest rate;
- o a 4 percent bad debt rate;
- o a 1 percent administrative cost (the cost of lending being primarily borne by the banks), offset by a 1 percent fee to be charged by the NDF or other designated institution.

As shown in the Table, the value of the Matching Fund reaches $1,003,000 at the end of year 3, against an infusion of $900,000 of original loan capital ($200,000, $300,000 and $400,000 midway through years 1,2 and 3 respectively). Assuming a 5 percent yearly inflation rate, the present value of the Fund amounts to $866,432, vs. a present value of the loan capital infusions of $827,831, representing a 5 percent increase. If indeed the above performance targets are achieved, the Matching Fund would thus actually increase in value over time. No projections of the Small Business Investment Fund are presented since the mix of equity and debt is unknown.

TABLE 3:

PROJECTED VALUE OF SME MATCHING FUND
(Thousands of U.S. Dollars)

	Year 1	Year 2	Year 3
Loan Portfolio Value			
Starting Portfolio	0	205	535
+ New Loan Capital	200	300	400
- Bad Debts 1/	8	12	16
= Year-end Portfolio	192	493	919
Average Portfolio 2/	96	349	727
Pro-forma Income Statement			
Interest Income 3/	12	42	87
Other Income 4/	2	3	4
Total Income	14	45	91
Expenses			
Administrative Expenses 5/	1	3	7
Bad Debts 1/	8	12	16
Total Expenses	9	15	23
Net Income (loss)	5	30	68
Adjusted Portfolio 6/	205	535	1,003

Notes:

1/ 4% of new lending for the year.
2/ average of starting and year-end portfolio.
3/ 12% of average portfolio.
4/ 1% administrative fee on low lending.
5/ 1% of average portfolio.
6/ year-end portfolio plus net income plus bad debts (already included in year-end portfolio).

The Microenterprise Lending Program

Table 4 shows the projected value of the Microenterprise Credit Fund based on the following assumptions:

- a 12 percent yearly interest rate;
- a 7 percent bad debt rate;
- a 20 percent cost of administration.

Based on these assumptions, the projected value of the Microenterprise Credit Fund amounts to $1,223,000 at the end of Year 3, representing a present value of $1,056,476 (at 5 percent inflation). However, the yearly loan capital infusions of $1,487,000 represent $1,382,687 in present value (again assuming infusions are made mid-year). The Fund would thus be decapitalized by 24 percent over 3 years.

When analyzing this projected level of decapitalization, one should have in mind the highly risky and highly expensive nature of microenterprise lending. Keeping the bad debt level at levels compatible with viability criteria has not proven possible, since the failure rate of these businesses is very high. Besides, lack of collateral reduces substantially the leverage the lending institution (in this case the NDF) can apply to delinquent clients. Under such conditions, the assumed 7 percent bad debt level should be considered as a desirable target. Cost of lending (which excludes the cost of technical assistance) is high, due to the very small size, and high monitoring costs, associated with each loan. Taking into account these two factors, AID thus has to accept a gradual loss of value of any loan fund directed to the microenterprise sector.

TABLE 4:

PROJECTED VALUE OF MICROENTERPRISE CREDIT FUND
(Thousands of U.S. Dollars)

	Year 1	Year 2	Year 3
Loan Portfolio Value			
Starting Portfolio	0	418	875
+ New Loan Capital 1/	469	549	469
- Bad Debts 2/	33	38	33
= Year-end Portfolio	436	929	1,311
Average Portfolio 3/	218	674	1,093
Pro-forma Income Statement			
Interest Income 4/	26	81	131
Expenses			
Administrative Expenses 5/	44	135	219
Bad Debts 2/	33	38	33
Total Expenses	77	173	252
Net Income (loss)	(51)	(92)	(121)
Adjusted Credit Fund Value 6/	418	875	1,223

Notes:

1/ 67% total allocations to NDFs in Financial Plan (33% to go to operating costs).
2/ 7% of New Loan Capital for the year.
3/ Average of starting and year-end portfolio.
4/ 12% of average portfolio.
5/ 20% of average portfolio.
6/ Year-end portfolio minus net loss plus bad debts (already included in year-end portfolio).

D. Economic Analysis

Benefit Assumptions

The diverse and intangible nature of the benefits from this project makes it very difficult to quantify them and to perform a standard cost-benefit calculation. Costs, on the other hand, are readily quantified, and can be assigned to categories of beneficiaries. Therefore, as an alternative to a complete cost-benefit analysis, the methodology employed is to: (1) qualitatively identify the nature of benefits accruing to beneficiaries (2) determine the costs of serving these beneficiaries, then (3) quantify what the level of benefits would have to be in order to generate a pre-selected ("reasonable") target internal rate of return.

The beneficiaries can be functionally divided into four classes: (1) microenterprise recipients of technical assistance and/or credit, (2) SME recipients of technical assistance, (3) SME recipients of credit, (4) national or regional organizations benefiting from the overhead or institution building elements of the project. Most of the microenterprises are by their nature not primarily commercial entities. They tend to engage in subsistence activities as an extension of the household. The benefits to microenterprises therefore accrue directly to the household in the form of an increase in the household's real income. Incremental employment or linkage effects for this group will be much smaller than for SMEs and are disregarded in this analysis. For SMEs, benefits will be manifested in the form of lowered costs, increased sales, or both. Increase in gross profit therefore becomes a proxy measure of project benefits to SMEs. The benefits of institution-building activities are widely dispersed, and are assumed here to be captured in increased value added for the small business-generated portion of GDP (i.e., gross value added for the region), though a subcomponent estimate is also made.

COST ASSUMPTIONS

Cost profiles are given in Table 12. From these data, estimated costs per intervention for each type of activity have been derived:

(all in U.S. dollars)

1. Microenterprise Credit and Technical Assistance

NDFs - Average loan/t.a./administrative cost per client = $4,000/client

WID - Average loan/t.a./administrative cost per client = $4,000/client

2. SME Technical Assistance Fund

Average intervention cost of $4,000, of which:

- an average of 25 percent is paid by the recipient in years 1 through 3;
- an average of 30 percent is paid by the recipient in year 4; and
- an average of 35 percent is paid by the recipient in year 5

Average net project cost = $3,000/intervention

3. SME Training Fund

Average cost per trainee of $1,600, of which:

- an average of 25 percent is paid by the trainee in years 1 through 3;
- an average of 30 percent is paid by the trainee in year 4; and
- an average of 35 percent is paid by the trainee in year 5

Average net project cost = $1,200/intervention

4. SME Pilot Matching Credit Fund

Average total investment package of $25,000, of which 50 percent is covered by the fund

Average net project cost = $12,500/investment

5. SBIC Pilot Project Investments

Average total investment package of $25,000, of which 25 percent is covered by the project fund

Average net project cost = $6,000/investment

6. Regional Coordinator Annual Operating Costs

4 professional staff -	$100,000
4 clerical staff -	50,000
Office operations -	50,000
Travel costs	36,000
Meetings/publications -	36,000
	=======
	$272,000

7. National Coordinator Annual Operating Costs

1 professional staff -	$15,000
1 clerical staff -	6,000
Travel -	3,600
Communications -	2,400
Office operations -	2,400
Meetings/publications -	1,200
	=======
	$30,600

Total annual cost per NC is $30,600, of which:
- 80 percent is covered by project funds, or approximately $25,000; and
- an NC would be established in 7 countries

Average net project cost per year = $175,000

Comparing the total cost of each type of intervention, as shown in Table 12, with the average cost per client, above, the number of expected beneficiaries from each activity can be estimated:

Activity	LOP Funding	No. Beneficiaries
1. Microenterprise Credit and TA	$2,220,000	1,110 clients*
2. SME Technical Assistance Fund	1,800,000	450 clients
3. SME Training Fund	1,202,000	751 clients
4. SME Matching Credit Fund	1,400,000	56 investments
5. SBIC Pilot Project Investments	2,000,000	80 investments
6. Regional Coordinators, and other		)
7. overhead	5,292,000	)Regional, diffuse
Total Project	13,914,000	2,447, plus regional

* 2,220,000/4,000 = 555. Assuming one rollover, 555 x 2 = 1110 beneficiaries.

Analysis

The analysis was carried out at two levels. First, the global benefits from the entire SEAP project that would be required to generate a specific target internal rate of return (IRR) to the project were calculated. Second, a supplementary set of calculations of required IRRs was made for each component of SEAP. The results of each approach are presented below.

1. Global Benefits and Costs

Increases in gross value added for the region were used as a proxy measure of the global benefits of the project. Total GDP for all of the islands affected by the project was calculated to be US$1768.8 million in 1984. The first effective year of the project was taken as 1986. First year real GDP was assumed equal to 1984 nominal GDP, or 1768.8 million. GDP projections are therefore effectively expressed in 1984 prices. The RDO/C Annual Action Plan projects an overall regional GDP growth rate of 4.57 percent from 1984-1990. This rate was applied to 1986 real GDP and extrapolated to year 2005. The resulting projections are shown in Table 5.

GDP measures the sum of all value added. Value added is approximately equivalent to gross margin on sales. Moreau and Juliard have estimated that micro enterprises account for between 10 and 14 percent of GDP, and hence of value added, so 12 percent was used in the present calculations. The same authors estimate that medium sized firms account for an additional 11 to 15 percent of GDP, so 13 percent was used here. Applying these percentages to the GDP data in Table 5 yields estimates of the share of regional value added generated by micros, by medium sized firms, and by the two combined. These values were also projected for 20 years, and are shown in the last column of Table 5.

TABLE 5

REGIONAL GROWTH IN VALUE ADDED

YEAR	REGIONAL GDP VALUE ADDED (US$ MILLION)	MICRO SHARE (12%)	MEDIUM SHARE (13%)	MICRO AND MEDIUM
1986	1768.80	212.26	229.94	442.20
1987	1857.24	222.87	241.44	464.31
1988	1950.10	234.01	253.51	487.53
1989	2047.61	245.71	266.19	511.90
1990	2149.99	258.00	279.50	537.50
1991	2257.49	270.90	293.47	564.37
1992	2370.36	284.44	308.15	592.59
1993	2488.88	298.67	323.55	622.22
1994	2613.32	313.60	339.73	653.33
1995	2743.99	329.28	356.72	686.00
1996	2881.19	345.74	374.55	720.31
1997	3025.25	363.03	393.28	756.31
1998	3176.51	381.18	412.95	794.13
1999	3335.34	400.24	433.59	833.83
2000	3502.10	420.25	455.27	875.53
2001	3677.21	441.26	478.04	919.30
2002	3861.07	463.33	501.94	965.27
2003	4054.12	486.49	527.04	1013.53
2004	4256.83	510.82	553.39	1064.21
2005	4469.67	536.36	581.06	1117.42

NOTE: The analysis Assumes that 1986 real GDP = 1984 nominal GDP. Growth assumed to be 4.5% per year.

SOURCE: 1984 GDP from World Bank. Micro and medium shares from Gordon Moreau and Chriss Juliard, "The Micro-Business Sector in Territories of the Eastern Caribbean," prepared for USAID and CIAC, April 30, 1982.

With-project and without-project estimates of regional value added were derived from these data. The procedure was to determine what change in total value added by micro and medium sized enterprises would be required to produce an IRR of 10 percent over an assumed benefit period of 20 years. The results are presented in Table 6. Gross benefits are measured as the difference in value added with and without the project. Net benefits equal gross benefits minus project cost, measured in millions of dollars.

The results show that in each of the twenty years, value added (or gross margin) by micros and medium sized firms would have to be about one fifth of one percent (0.203 percent) larger with the project than without it in order to produce an IRR of 10 percent. The calculations were repeated for other time periods and for other target IRR's. The results are not shown in Table 6, but the calculations revealed that a 10 percent IRR over only 10 years would require a with-project increase of 0.330 percent in value added. To generate a 12 percent IRR in only 10 years would require that Value Added with the project be 0.346 percent higher in each year than it would have been without the project.

Labor force data for the islands are incomplete and quite unreliable. Estimates of the employment impact of the project are therefore necessarily highly tentative, but an effort was made to determine the order of magnitude by utilizing the relationship between GDP growth and employment growth. Calculations from sparse historical data for the islands suggest that an increase in GDP of about EC$14,000 ($US185) is associated with an employment increase of 1 person-year. This relationship was applied to the net increase in regional GDP expected to be generated by the project under the assumption of 10% Internal Rate of Return for the project and a 20 year benefit period (See Table 6). Under these assumptions, a total of about 2300 person-years of employment would be generated over the 20-year period, 350 of which would be in the first 5 years.

TABLE 6

ADDITIONAL CONTRIBUTION OF SEA PROJECT* TO REGIONAL VALUE ADDED REQUIRED TO PRODUCE IRR OF 10% OVER 20 YEARS

Year	Cost (US$ MILL)	Value Added Without Project (US$ MILL)	Gross Value Added With Project (US$ MILL)	Benefit (Increase in Value Added) (US$ MILL)	Net Benefit (US$MILL)	Percent Change in Value Added %
1	3.072	442.2000	443.0973	0.897343	-2.17465	0.202927
2	3.738	464.3100	465.2522	0.942210	-2.79578	0.202927
3	3.589	487.5255	488.5148	0.989320	-2.59967	0.202927
4	1.720	511.9017	512.9405	1.038786	-0.68121	0.202927
5	1.795	537.4968	538.5875	1.090726	-0.70427	0.202927
6		564.3717	565.5169	1.145262	1.145262	0.202927
7		592.5902	593.7928	1.202525	1.202525	0.202927
8		622.2198	623.4824	1.262651	1.262651	0.202927
9		653.3307	654.6565	1.325784	1.325784	0.202927
10		685.9973	687.3894	1.392073	1.392073	0.202927
11		720.2972	721.7588	1.461677	1.461677	0.202927
12		756.3120	757.8468	1.534761	1.534761	0.202927
13		794.1276	795.7391	1.611499	1.611499	0.202927
14		833.8340	835.5261	1.692074	1.692074	0.202927
15		875.5257	877.3024	1.776678	1.776678	0.202927
16		919.3020	921.1675	1.865512	1.865512	0.202927
17		965.2671	967.2259	1.958787	1.958787	0.202927
18		1013.5300	1015.5870	2.056727	2.056727	0.202927
19		1064.2070	1066.3660	2.159563	2.159563	0.202927
20		1117.4170	1119.6840	2.267541	2.267541	0.202927

NPV AT 10% FOR 20 YEARS = 0.000906

*MICRO AND MEDIUM SIZED ENTERPRISES

Source: Table 5

2. Project Components - Benefits and Costs

A similar procedure to that used in the global estimates was used for the project components. For this purpose, four categories were used: (a) Microenterprise Credit and Technical Assistance, (b) SME Technical Assistance Fund and SME Training Fund, (c) SME Credit, comprised of: SME Pilot Matching Credit Fund, and the SBIC Pilot Project Investments, (d) Institution-building, or Overhead Costs. The following sections summarize the findings for each of these subcomponents.

a. Microenterprise Credit and Technical Assistance.

This analysis includes the NDFs and WIDs. Total cost of this component is $2,220,000. Benefits are assumed to be in the form of increased real household income. Assuming a target IRR of 10 percent, it can be seen from Table 7 that an overall gross benefit, measured as the increase in yearly real income, of $236,124 would be required over a 15 year benefit period. With 1110 clients, this implies an increase in each client's yearly per capita income of about $213. Since the benefit period for this category is probably less than 15 years, other calculations were made. The results reveal that the required increase in yearly income over only 10 years to produce a 10% IRR would be $263 per client. A 12% IRR over 10 years would require an increase of $275 per client.

TABLE 7

BENEFITS REQUIRED FROM NDF & WID TO GENERATE 10% IRR OVER 15 YEARS

Time Period	Year	Cost ($000)	Gross Benefit ($000)	Net Benefit ($000)
1	1986	665	236.1242	-428.875
2	1987	665	236.1242	-428.875
3	1988	620	236.1242	-383.875
4	1989	135	236.1242	101.1242
5	1990	135	236.1242	101.1242
6	1991		236.1242	236.1242
7	1992		236.1242	236.1242
8	1993		236.1242	236.1242
9	1994		236.1242	236.1242
10	1995		236.1242	236.1242
11	1996		236.1242	236.1242
12	1997		236.1242	236.1242
13	1998		236.1242	236.1242
14	1999		236.1242	236.1242
15	2000		236.1242	236.1242

NPV at 10% = 0.000835

b. SME Training and Technical Assistance

Total cost of this component is $3,002,000. Gross benefits accrue in the form of increased revenue, increased efficiency and lower costs, or both. Gross benefits would therefore be reflected in increases in gross profits to the enterprise. In order to produce a target IRR of 10 percent over a 20 year benefit period, yearly gross benefits with the subproject would have to be $261,458 greater than without the subproject (See Table 8). There are an estimated 1201 clients (450 + 751) for this subproject. With-project yearly gross benefits per client must therefore be $217 higher than without the project. Similar calculations for a 10% target IRR over a shorter 15 year period produce a required gross benefit of $292,653, or $244 per client. For a 12% IRR over 15 years, the figures are $309,401 gross benefit, or $258 per client.

TABLE 8

BENEFITS REQUIRED FROM SME TA & TRAINING SUBCOMPONENT
TO YIELD 10% IRR OVER 20 YEARS

Period	Year	Cost ($000)	Gross Benefit ($000)	Net Benefit ($000)
1	1986	333	261.458	-71.542
2	1987	667	261.458	-405.542
3	1988	667	261.458	-405.542
4	1989	675	261.458	-413.542
5	1990	660	261.458	-398.542
6	1991		261.458	261.458
7	1992		261.458	261.458
8	1993		261.458	261.458
9	1994		261.458	261.458
10	1995		261.458	261.458
11	1992		261.458	261.458
12	1996		261.458	261.458
13	1997		261.458	261.458
14	1998		261.458	261.458
15	1999		261.458	261.458
16	2000		261.458	261.458
17	2001		261.458	261.458
18	2002		261.458	261.458
19	2003		261.458	261.458
20	2004		261.458	261.458
21				

NPV AT 10% FOR 20yrs = 0.003273

c. SME Credit Projects

The overall cost of this component is $3,400,000. Gross benefits are assumed to accrue in the form of increased enterprise size, formation of new enterprises, increased productivity and lower costs, all reflected in increased gross profit. From Table 9 we see that the increase in yearly gross benefits that would be required to yield a 10 % IRR over a 20 year period is $325,463. With 136 investments (56 + 80), this implies a with-project incremental return of $2,393 per investment per year. For a 10% IRR over only 15 years, the figures are $364,294 per year, or $2,679 per investment per year. For an IRR of 12% over 15 years, benefits of $391,640, or $2,872 per investment per year would be required.

TABLE 9

BENEFITS REQUIRED FROM SME CREDIT SUBCOMPONENT
TO YIELD 10% IRR OVER 20 YEARS

Period	Year	Cost ($000)	Gross Benefit ($000)	Net Benefit ($000)
1	1986	800	325.463	-474.537
2	1987	1200	325.463	-874.537
3	1988	1400	325.463	-1074.530
4	1989		325.463	325.463
5	1990		325.463	325.463
6	1991		325.463	325.463
7	1992		325.463	325.463
8	1993		325.463	325.463
9	1994		325.463	325.463
10	1995		325.463	325.463
11	1996		325.463	325.463
12	1997		325.463	325.463
13	1998		325.463	325.463
14	1999		325.463	325.463
15	2000		325.463	325.463
16	2001		325.463	325.463
17	2002		325.463	325.463
18	2003		325.463	325.463
19	2004		325.463	325.463
10	2005		325.463	325.463
21				

NPV AT 10% FOR 20yrs = 0.000066

Assuming that all of the credit available through the project is loaned and invested, it is estimated that there will be at least 136 investments (56 + 80), averaging $25,000 each, for a total of $3,400,000. This is probably the minimum impact, since it assume no loan rollover. For example, if each credit line were to roll over once, investment generated would exceed $6 million. Moreover, because it is so difficult to quantify them, this estimate omits possible investment spinoffs from the Technical assistance components of the project.

d. Institution-building, or Overhead Subcomponents

This component includes: PADF Training, Regional and National Coordinator Costs, Management and Technical Support to the Regional Coordinator, Contingency Allowance, and Evaluation and RDO/C Project Management . Total cost of the component is $5,292,000. The benefits of this portion of the project are widely spread over the various clients and over the region, and are difficult to identify with a specific outcome such as changes in cost or revenue. Whatever the specific nature of the benefits, Table 10 illustrates the dollar value of them that would be required to produce a target IRR of 10% over a 20 year period. The data show that yearly regional with-subproject benefits would have to be $478,884 greater than without the project in order to yield that rate of return. With the total number of beneficiaries from all project subcomponents being no less than 2447, this amounts to $196 of benefits per client and per investment per year. Alternative estimates for a 10% target IRR with a 15 year benefit stream are $536,020 and $219 respectively, while for a 12% IRR over 15 years, the values are $570,984 and $233. No allowance was made for multiplier or spread effects that would reduce per capita values.

TABLE 10

BENEFITS REQUIRED FROM SEAP OVERHEAD & INSTITUTION-BUILDING SUBCOMPONENT TO YIELD 10% IRR OVER 20 YEARS

Period	Year	Cost ($000)	Gross Benefit ($000)	Net Benefit ($000)
1	1986	1274	478.884	-795.115
2	1987	1206	478.884	-727.115
3	1988	922	478.884	-443.115
4	1989	900	478.884	-421.115
5	1990	990	478.884	-511.115
6	1991		478.884	478.884
7	1992		478.884	478.884
8	1993		478.884	478.884
9	1994		478.884	478.884
10	1995		478.884	478.884
11	1996		478.884	478.884
12	1997		478.884	478.884
13	1998		478.884	478.884
14	1999		478.884	478.884
15	2000		478.884	478.884
16	2001		478.884	478.884
17	2002		478.884	478.884
18	2003		478.884	478.884
19	2004		478.884	478.884
20	2005		478.884	478.884

NPV 10% FOR 20 YEARS = 0.000354

Conclusions

The analyses suggest that the increases in Value Added, Gross Profit, Per Capita Income or other measures of benefits that would be required to produce acceptable Internal Rates of Return are small enough to be attainable both globally and at the subproject level. It is therefore reasonable to expect that the Small Enterprise Assistance Project will be able to generate these levels of benefits and that it is economically justified.

D. Administrative Analysis

1. Organizational Structure and Rationale

a. Caribbean Association of Industry and Commerce (CAIC)

Since its rejuvenation in 1982 the CAIC has become the primary vehicle for private sector interests in the region. The CAIC Executive has been highly successful in promoting dialogue on private sector needs both regionally and internationally. Additionally, CAIC has been organized to implement action-oriented programs aimed at strengthening the private sector throughout the region, offering a range of services which address specific business requirements. To this end CAIC administers programs and projects through three departments: Organizational Affairs and Business-Government Relations, Technical Assistance and Training, and Economic Development. Within the last year, CAIC has also embarked on a program to strengthen local Chambers of Commerce in the LDCs, who cannot draw on the financial support of members to the same extent as the larger Caribbean territories. Thus, CAIC, as the premier umbrella organization of the private sector in the region providing services, training and technical assistance to affiliates, is a logical choice for grantee of a project aimed at small and medium-scale enterprises.

However, up to the present, these enterprises in general, and specifically in OECS countries, have not been able to benefit greatly from the expertise and services that CAIC provides. This is largely due to the fact that much of CAIC's programming has been directed at the region's larger firms, particularly those engaged in regional and extra-regional exports. Presently, CAIC is not seen as being representative of small and medium businesses in the LDCs. However, both CAIC and LDC private sector organizations have strongly indicated that redressing this situation is a high priority. Implementation of this project through a CAIC sub-unit, the SEA Regional Coordinating Unit (RCU) fills that gap. Ensuring that LDC small and medium enterprise interests are reflected in SEA policy is effected through the creation of a SEA Advisory Council with representatives from all the participating countries. Thus, this project both builds on the strengths of operating through a regionally recognized private sector organization, CAIC, while filling an important vacuum in assistance to small and medium-scale enterprises.

b. Expansion of CAIC Structure and Functions

Introduction of the SEA RCU into the structure of CAIC will necessitate changes in the organizational structure of that body. Representation of CAIC's present and future organizational structure can be seen in Figure 4. Under the new structure a Deputy Director will be hired to oversee two existing divisions within CAIC, Organizational Affairs and Business-Government Relations Unit and the Economic Development Unit, as well as a restructured Unit which will handle training to the MDC members of CAIC and conferences. The Accounts division will be strengthened with the hiring of additional staff to handle SEA Project's accounts. The Training and Technical Assistance Division's activities in the OECS countries will be folded into the SEA Project. The Regional Project Coordinator will oversee most activities and services to OECS countries with the exception of the Local Affiliate Development Program which will continue to be the responsibility of the Organizational and Business Affairs Unit. This restructuring is designed to provide maximum impact to small and medium size enterprises in OECS states without diminishing CAIC's services to its MDC constituents.

Areas to be addressed during project implementation include the selection and appointment of a Deputy Director for CAIC and the designing of mechanisms for coordination between SEA and CAIC activities, particularly the development of the local affiliates.

c. Regional Coordinating Unit (RCU)

Extensive research and discussions with private sector firms and organizations led to a consensus that a regional entity was needed to coordinate the project. This entity is viewed as an office which will broker services funded by the project including project appraisal, marketing, bookkeeping services, training and technical assistance. The creation of another private sector institution was not considered necessary for achieving the objectives of the project. Instead, a distinct organizational unit known as the Regional Coordinating Unit will be established within CAIC.

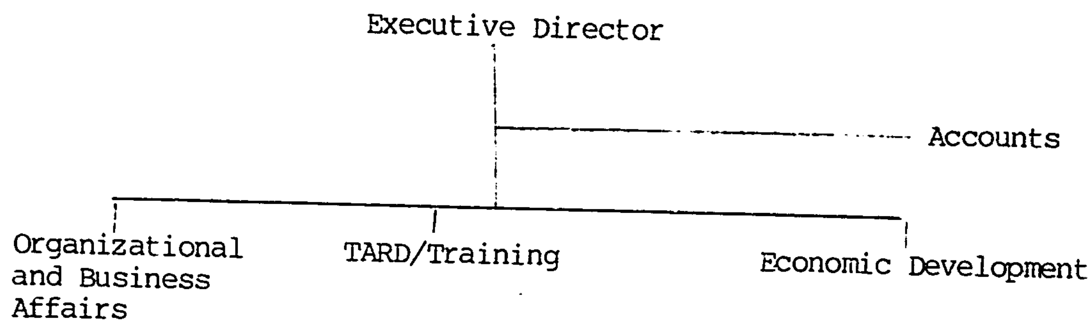
The SEA RCU will consist of a Regional Coordinator as well as a number of SEA technical and support staff. The Regional Coordinator as the Director of the SEA Project will be responsible for the overall operations of the Project. The Regional Coordinator will function as a deputy to the Executive Director of CAIC and will report directly to the latter. The Executive Director will control the direction of the SEA RCU on a management by exception basis.

In the early stages of the project it is expected that the SEA Regional Coordinator, the head of the RCU, will be heavily involved in assisting the NCCs to formalize themselves. Assessment of assistance requests will also involve a large part of the RC's time initially. It is envisioned that both the RC and the NCCs will be able to draw on the services of Peace Corps and IVS volunteers in getting the project off the ground in each island. Both funding and personnel will be provided for this purpose for a specified, limited time. It is expected that one person per island will need to be hired for the duration of the project to serve as National Coordinator (NC) in that island. At the end of the project, should the brokering services provided by the NCs prove sustainable, existing national institutions, such as Chambers of Commerce or the National Development Foundations would incorporate these duties into their existing operations.

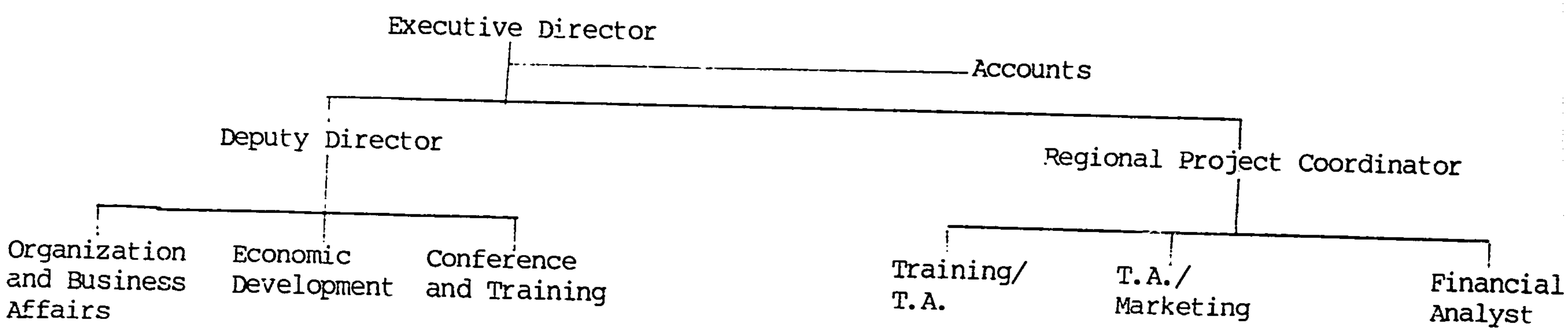
FIGURE 4

CAIC ORGANIZATIONAL STRUCTURE

PRESENT ORGANIZATIONAL STRUCTURE



PROPOSED ORGANIZATIONAL STRUCTURE



d. SEA Advisory Council

Improved coordination between local assistance institutions and private sector organizations is an important element of this project. In the recent past the constraints affecting small and medium-scale enterprise development have not been well articulated in the region. In order to ensure that the RC is continuously responsive to OECS client needs, it has been strongly proposed by the countries themselves, that the RC constitute an Advisory Council made up of elected representatives from the National Coordinating Committees in each island involved in the project. This Advisory Council will give the project much needed support and guidance in its early stages. Ongoing meetings of the Advisory Council throughout the life of the project should facilitate successful backward and forward linkages between the RCU and NCCs which may result in increased integration among private sector organizations in Barbados and the OECS countries.

e. National Coordinating Committees (NCCs)

Preliminary discussions with private sector organizations indicate that composition of the NCCs will vary throughout the islands. For example, in the Leewards, particularly Antigua and St. Kitts-Nevis, it is envisioned that the NDF Board of Directors will actually be the National Coordinating Committee. In Antigua, the NDF will probably chair a sub-committee composed of the Chamber of Commerce, the Small Farmers Association, the Manufacturer's Association and the NDF to oversee this project. In St. Kitts-Nevis, the present composition of the NDF Board of Directors duplicates what would be necessary under a National Coordinating Committee and thus no new Committee is envisaged. However, in Nevis, an island committee will be established which will be represented on the NDF Board by the President of the Nevis Chamber of Commerce. In Montserrat, the Chamber of Commerce will play the leading role with representation by the newly formed Manufacturer's Association.

In the Windwards, where there are many more organizations representing small and medium-scale business interests, NCCs will have to be constituted with representation from all interested organizations. In turn, the NCC will hire a National Coordinator to act as chief liaison with the RCU.

f. Primary Considerations in the Design Process

The project design has taken into account a number of factors relating to the project's administration.

Firstly, a mechanism needed to be found whereby technical assistance, training, credit and market sources could be brokered to micro, small and medium size enterprises which would not tax the human resources of RDO/C's staff.

Secondly, while it was recognized that the best mechanism would be to use an existing regional private sector organization such as CAIC, it was also recognized that CAIC staff as presently constituted could not handle a project of this magnitude.

Thirdly, there was a consensus in the region, within RDO/C, and in CAIC, that the needs of micro/small/medium scale enterprises were not being adequately addressed and that small-scale enterprises needed an agency designed to provide assistance and services. However, it was also agreed that the region could not support a new private sector regional body.

Fourthly, it was agreed that services should be demand driven and that there was a need for better coordination at the local level among firms and organizations providing assistance to SMEs.

Fifthly, in terms of credit, there was no desire to create new financial institutions, but rather to provide incentives for commercial banks to lend to small-scale enterprises.

Recognizing all of the above, organizational and administrative relationships have been designed which will give considerable autonomy to clients at the local level to choose the assistance they need, while providing the monitoring and appraisal needed by RDO/C and CAIC to ensure that project funds are properly and effectively utilized.

The project design has also taken into account the need to ensure that: 1) the RC has reasonable time to put staff together; 2) the NCCs are given sufficient time to establish their priorities and elect representatives to a SEA Advisory Council; and 3) various project activities can proceed independently of others on an island-by-island basis, so that islands which are ready earlier will not have to wait on all the others.

Clear lines of authority between the RCU and the NCCs will also be established and agreed to by all parties. The RCU, as a coordinating agency under the auspices of CAIC, will have to be given some degree of authority to carry out its responsibility. Commitment by host country private sector organizations is fundamental to success and statements of intent to participate will be necessary at an early stage.

2. Linkages and Coordination Mechanisms

RDO/C recognizes that the needs of small and medium businesses are many and include technical assistance, training, bookkeeping and management services. We also recognize that there are already many organizations in place to deliver some of these services. What is lacking is coordination and formal cooperation among private sector organizatons and delivery agencies at the national and regional level.

The primary role of the RCU at the regional level will be to broker the necessary services requested by the NCs. This can be done for individual firms as well as for a particular regional sub-sector, such as agro-processing, where cost effectiveness would be an important consideration. To a large extent the project will be demand driven from the bottom up. The NCCs establish their needs and when they are unable to service these requests themselves, they send their requests to the RCU.

The establishment of National Coordinating Committees to provide policy guidance to the NCs addresses the oft expressed need for better communication and collaboration. In some islands, areas of overlap create the need for better coordination of programs to ensure optimum use of limited resources. This is particularly true of training and some types of technical assistance which are provided by regional and international agencies such as BIMAP, CAIC, FIT and CDB. Lack of national coordination has resulted in a plethora of workshops on the same themes and much grumbling on the part of clients that their particular needs are not being met.

By getting the primary organizations and agencies concerned with small business development together at the national level to inventory existing services and identify gaps and prioritize needs, two important things will be accomplished. First, a forum for collaboration and liaising will have been established and secondly, greater awareness of available delivery systems will be developed along with channels for receiving specific outside assistance through the SEA Project. For many of the islands, for example Dominica and St. Lucia, this project provides the focus which has been missing in attempts to bring together private sector organizatons concerned with small and medium scale enterprises.

Establishment of a SEA Advisory Council achieves two important goals. First, it provides a forum for addressing issues important to small and medium size enterprises throughout the region, while allowing them better access to CAIC. Secondly, it provides a mechanism for improved coordination among OECS private sector organizations themselves.

Successful working of the linkages, however, will be highly dependent on the efficiency of SEA's service delivery. Furthermore, the quality of staff at the RCU level is crucial; the Regional Project Coordinator must be a person who is well respected in the region and who also has considerable drive and management skills. To ensure good collaboration within the NCCs and between the RC and the NCs, it is expected that the Project Staff will be involved in considerable travel among the islands.

3. Management

a. CAIC's Project Management Capability

CAIC is presently the recipient of an AID grant funded project, which is institution building in nature. CAIC's administration is cognizant of AID's reporting and accounting procedures and should have little difficulty in complying with standard procedures and conditions. However, it is recognized that a new load level will be introduced with the inception of this project and provision for technical assistance in setting up new accounting procedures is included.

Presently, the Executive Director is stretched in terms of management responsibilities. However, CAIC is in the process of interviewing for a Deputy Director. This Deputy Director will take over the day to day administrative responsibilities of the Organizational Affairs and Business-Government Relations, Economic Development, and the restructured meetings and conferences unit, leaving the Executive Director more time to devote to policy matters. The hiring of such a person will facilitate CAIC's ability to manage this project.

The Training and Technical Assistance Division are considered by private sector organizations in the region to be highly competent and responsive. The services they have provided have been of a high standard and are well received. There should be little problem in integrating these services into the Regional Coordinating Unit.

b. RCU's Management Capability

CAIC, with RDO/C's approval, will select a Regional Coordinator who will have operational responsibility for project implementation. The project manager selected will be a person with the following attributes:

- A West Indian with several years experience working in the region with private sector organizations;
- A person with recognizable managment capabilities; and,
- A person with experience in working for an agency which has provided services similar to those being provided by this project.

Several candidates possessing these qualifications are considered available for such an assignment. It is recognized that the person chosen will be critical to the project's success and hence great care is being taken in selection of the RC. The RC will, in turn, hire a small staff to implement the SEA Project. This will include experts in technical assistance, training, and credit. As services will be brokered, not provided directly by the RCU, there is no need for a larger staff. The RC staff will largely be engaged in facilitating and monitoring activities. There will be close collaboration with both CAIC and RDO/C for backup management support.

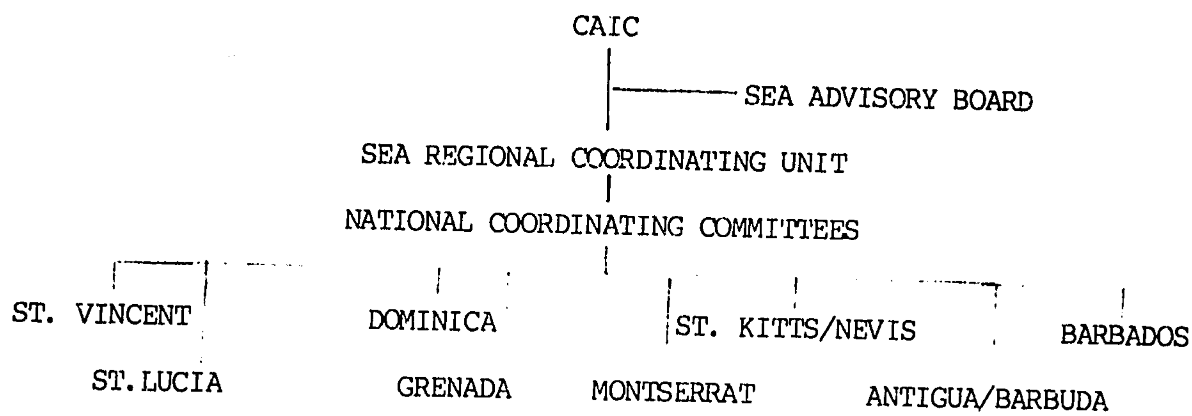
c. National Coordinators Management Capability

While primary responsibility for setting priorities and developing work plans will rest with the national co-ordinating committees, it is recognized that most committee members are already saddled with responsibilities and could not take on the day to day administration of this project. The NCCs are being asked to elect one of their members as Chairperson. This person would be responsible for overseeing the activities of the National Coordinator who would be the day to day administrator of project activities in that country. This National Coordinator should have a management/administration background, with experience in the private sector and preferably small and medium enterprises.

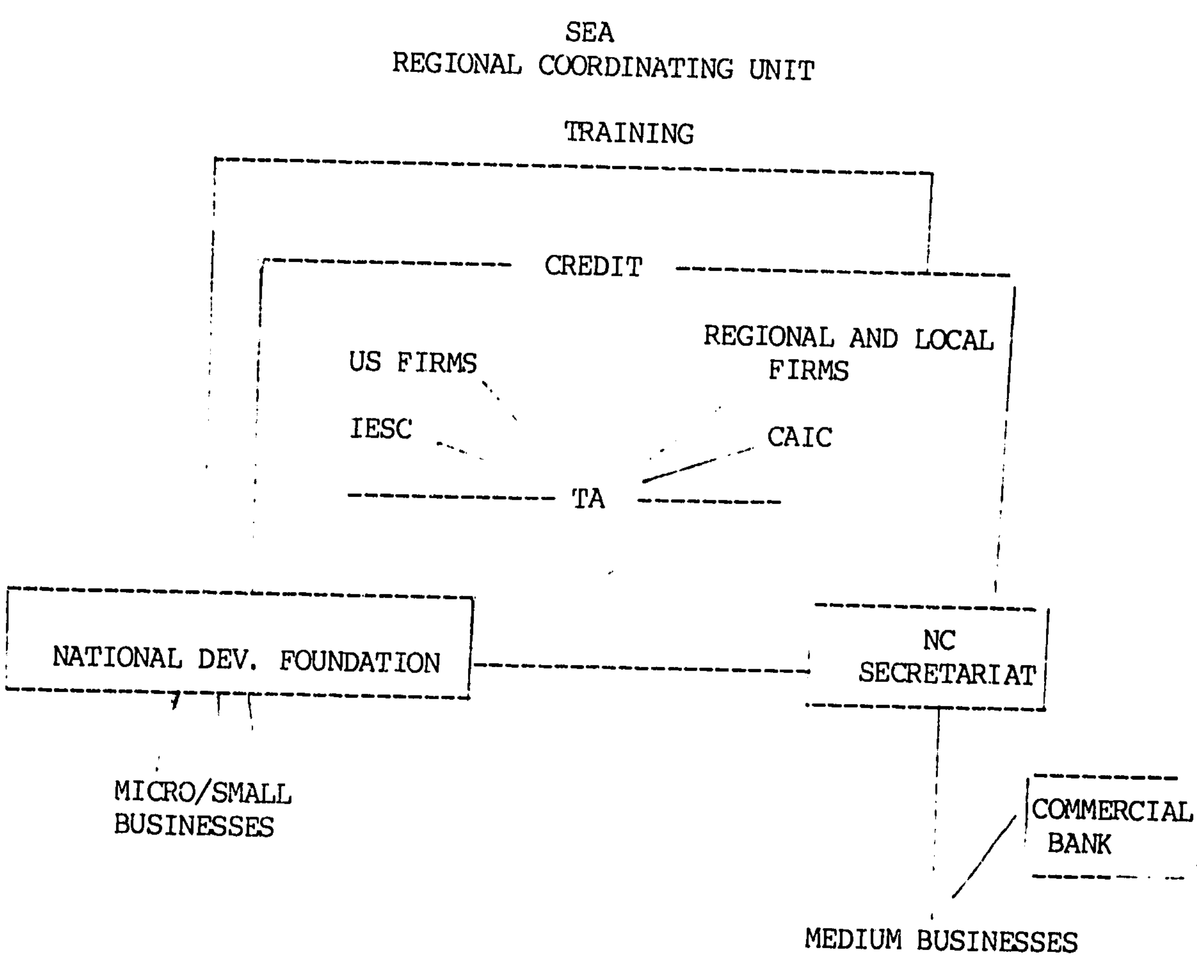
It is envisioned that considerable technical assistance will be provided on an ongoing basis by the RCU to NCCs and NCs. In fact, building this management capacity at the local level will critical to the successful delivery of SEA services. To this end the NCCs are being asked to prioritize needs, while the NC builds local skills in project identification, financial analysis, and management, and prefeasibilty studies with specific technical assistance from the RCU (See Figure 5).

FIGURE 5

SEA PROJECT ORGANIZATION



DELIVERY SERVICES COMPONENT



E. Social Soundness Analysis

1. Socio-Economic Factors Affecting Small Enterprise Development

As traditional plantation societies, private sector development in the West Indies was largely limited to the production and distribution of sugar, cocoa, bananas, and spices, and the importation of consumer goods and food from Europe and North America. The trades which developed were those associated with the primary sectors of the economy and included coopers, wagon wrights, foundries for repair of sugar machinery, ship chandlerys, etc. There was little domestic capital in economies where the vast majority of the population were agricultural laborers working on estates often far from the capital and major port. Subsistence farming in conjunction with estate labor, was the norm and there was little need for services associated with a modern urban economy. Although urban areas exhibited steady growth throughout the twentieth century, it is not until the 1960s, with more rapid diversification of the economies of the islands of the Eastern Caribbean, that we witness the development of consumer societies.

In the twenty years which have passed, traditional patterns have been modified by the transformation of economies to include light industry, tourism and the expansion of the government sector which has created a salaried strata more dependent on goods and services. These twenty years have also witnessed mass emigration. In all the islands this has meant a loss of the most skilled of all social classes including artisans and tradesmen. During this period business practices have been altered predicated on external factors - such as the introduction of supermarkets, decline of artisanal activities such as seamstresses, tailors and shoemakers, introduction of factory shells and assembly line operations - all necessitating changes in the organization and management of businesses. Changes in markets are forcing changes in production, but most West Indian firms have little knowledge of or contacts with the distributors in primary markets. Although domestic economies are growing, their inherent smallness forces entrepreneurs to look beyond their individual island and even the region.

Although important changes in the structure of the economy and its markets are occurring, Eastern Caribbean entrepreneurs, particularly small business persons, are not well prepared to move with the changes. The transfer of technology and business practices are only one part of the problem, however. Other factors are related to indigenous problems such as domestic banking practices, problems of reliable shipping, customs regulations, and local wage rates.

Nevertheless, despite the many structural and organizational problems besetting small business development, there has been a remarkable growth of both formal establishments in the productive and service sectors as well as growth in the informal sector. Self-employment is a valued goal in these societies and we can expect to see continued growth in this area. However, stable growth will be predicated on both the removal of some of the most serious constraints such as lack of knowledge of and access to markets, better quality control, access to long term credit and working capital, policy ch- -es to promote intra-regional trade, and more reliable intra-regional shipping.

Although this project can not be the panacea to all the problems facing small enterprise development in the Eastern Caribbean, it is being targetted to remedy several of the constraints listed by both donors and local business people as highly detrimental. It is also coming on stream at a time when the private sector as a whole is becoming more organized and more vocal in articulating the impediments to stable growth. The role of small business in island economies is also gradually being recognized by policy makers as important to both political and economic stabilty.

2. Social Structure and Social Relations

Although the social structure of the islands is being modified by changes in the economy and deliberate Government policy, the basic configuration which characterized society in the 1940s characterizes society today. In practically all the islands of the Eastern Caribbean, the same firms which dominated the commercial sector forty years ago remain the most important and most have diversified their operations to include tourism and light manufacturing. As the major import-export firms these agencies also dominate the insurance, shipping and transport sectors as well as control the wholesale and often retail market as well. Usually the chairmen of these firms serve on the Chambers of Industry and Commerce, Employers Federation and various statutory boards.

This elite group is held in some distrust by a significant number of small business persons in all Eastern Caribbean societies. This is due both to social class position as well as to color/ethnicity factors since a high percentage of the owners of the biggest firms tend to be members of minority groups such as whites and persons of Middle Eastern descent. In the past, this distrust has been manifested both in a refusal on the part of many to join the Chamber which has been perceived as the preserve of big business interests, and in a need to form separate Small Business Associations. More recently, there have been ongoing dialogues in several countries to try to bridge this gap between business sectors and a desire to create umbrella organizations to facilitate the lobbying of private sector interests.

Expansion of formal small and medium size enterprises in the last ten years has given this sector more leverage than it previously had. Economic diversification and urbanization have created a demand for many of the services provided by small and medium size enterprises. Initially CARICOM concessions to LDC producers encouraged expansion of light industry producing for regional markets. A recent inventory of 402 small business enterprises in OECS states found a high percentage (240 of 402 surveyed) of these firms to be engaged in agro-processing and light industry.

However, although this sector is growing, extensive interviews with small business persons indicate that they continue to feel like second-class citizens. Throughout the islands, those interviewed articulated the same grievances and similar feelings of lack of access to decision makers in both government and the banking sector. Many problems are attitudinal on the part of all parties reflecting both past and present social relations and often party politics. Although social relations are often strained between big business and small business, in the face of serious economic challenges there is a growing recognition of the need to collaborate and cooperate. Traditional patterns of distrust will be hard to break and the natural fear of competition will impede full cooperation, but most leaders in the business community recognize the need and on some islands have already been attempting to form Small Business committees within Chambers and Private Sector Councils in others. The formation of national coordinating committees for this project will provide a further opportunity for dialogue and collaboration among Chambers, Small Business interests and micro business interests. An important role for the Regional Coordinator will be to ensure that small business interests are adequately represented on these committees.

3. Existing Private Sector Organizations and their Constituents

The table at the conclusion of the Technical Analysis provides a summary of existing institutions which offer some form of assistance to small and micro businesses in the Eastern Caribbean. Studies done by White, Moreau and Julliard and extensive interviews for this project indicate that with the exception of the National Development Foundations, few institutions provide the integrated assistance which most small and micro businesses need. Most of them, however, are valuable resources for knowledge of the types of assistance available to small businesses.

Private sector institutions designed specifically to meet small business needs are few in number both within the islands and regionally. At the regional level there is no Small Business Agency coordinating information and aiding in technical assistance for small firms. In fact, the regional coordinating operation for this project will be a breakthrough in providing technical assistance specifically for small/medium enterprise development. Within each island the various Chambers of Commerce and Industry differ in their approach to small business needs, and few are seen as adequately representing small enterprise in terms of brokering training and technical assistance or in policy dialogue with government. This problem at the local level has been replicated at the regional level with CAIC. Thus, this project will fill an important gap in both CAIC's programming at the regional level as well as linking most chambers at the national level with the RCs efforts.

Small Business Associations are generally weak in all the islands. Several are virtually moribund. This is largely due to the inability of small businessmen to devote the necessary time to institutional development. As well, these associations are not financially strong enough to hire full-time staff. This project will not directly fund the establishment of SBAs, but may indirectly aid their revival in some of the larger islands. This may occur as a result of the provision that recipients of SEA Project assistance must be a member of an existing private sector organization. In several of the smaller islands a separate SBA is considered by many to be counterproductive as most small businessmen are represented either through the Chamber or the NDF or both. In these cases the representation of small business firms on the SEA National Coordinating Committee will, de facto, create a local entity to broker small business interests. Thus, although institutionalization of small business organizations is not a primary purpose of this project, implementation should, in fact, encourage better representation of small business interests in both the regional and national arena.

The National Development Foundations and several PVOs exist in all the islands to aid micro businesses. In fact, between the NDFs, local and international PVOs, and community development projects sponsored largely by BDD, microbusiness needs are being addressed. Often, however, there is little liaison among these organizations to facilitate better provision of services and avoid duplication. Assessment of the impact of these organizations on OECS island societies as a result is difficult. Again, utilizing a national coordinating entity to broker services and keep track of agencies and their assistance will allow countries to better assess their credit and technical assistance needs as well as evaluate their target population and its needs.

4. Social Consequences and Benefits

a. Micro Business Sector

The introduction of Natonal Development Foundations in all of the OECS states and Barbados promises to fill an important gap in assistance in the region. The informal sector is a significant source of income and employment in the LDCs. Since its inception in 1983, the NDF in Dominica, (NDFD), the pilot program, on which the other Foundations are based, has disbursed 292 loans valued at EC$875,939 and affecting 664 jobs. The figure is more relevant when it is remembered that the labor force of Dominica totals 29,500. Credit is not the only service provided by the NDFs. Technical assistance and training are also important, and are targetted both at improving general business practices and providing technical assistance for specific sectoral needs such as packaging, quality control and marketing.

The NDFs of the Eastern Caribbean are similar in origin to those of Latin America and are receiving assistance from the Pan American Development Foundation. However, the impetus for founding NDFs came from the region itself, as professionals and business people sought a mechanism to redress the credit and technical constraints affecting micro businesses in the region. Each of the NDFs, while sharing many similarities also reflect differences island by island. For example, the NDFD in Dominica has a strong agricultural base and is working with the newly formed Hucksters Association in the packaging and marketing of fresh vegetables for export. The NDF in Antigua is more service oriented and tends to grant larger loans reflecting the nature of a fairly highly developed service economy based on tourism.

This project is being designed to continue support to the NDFs on a regional basis. This will facilitate the brokering of larger amounts of technical assistance and training as well as allow for greater cooperation and communication between the constituent parts. Technical assistance will also be provided to the Foundations themselves to improve the organizations' ability to assess and monitor viable projects and institutionalize their capacity to provide technical assistance, training, and loan administration.

It is hoped that cooperation between the NDFs, Chambers, Small Business Associations and Manufacturers Associations through the National Coordinating Committees will foster a climate whereby the more viable micro businesses are able to expand and become established medium-scale enterprises providing more employment. In many cases it is simply a matter of lack of access to information and technical assistance services, rather than strictly credit, which have impeded the successful development of small businesses in the LDCs. All of the NDFs will be engaged in a monitoring and assessing progress to ascertain target groups on an ongoing basis. Where evaluation demonstrates oversaturation, NDFs will encourage investment into more opportune areas. This will become possible once assistance in countries is less fragmented.

b. Medium Enterprises

Businesses comprising the medium size business sector in the Eastern Caribbean are numerically much greater than large enterprises but traditionally are precariously placed within the economy. Until recently, both governments and international agencies focused solely on large enterprises and a development ideology which stressed major industrial investment by both local and foreign investors. The role of medium businesses in the stable economic development of these island states was rarely addressed. However, this sector has continued to grow and diversify. Presently, medium size businesses are represented in every sub-sector including light manufacturing, agro-processing, tourism and other services. Although growth has been continuous, entrepreneurs explain that constraints are numerous and further expansion and financial stability are impeded by a lack of access to credit, except for short term commercial loans, lack of knowledge of export markets and distributors, and lack of access to modern technical expertise. There is a growing awareness on their part that they are an important segment of the private sector. Politically, these entrepreneurs are becoming more articulate in pressing their case to the national leadership and in banding together to form organizations to lobby their interests.

Presently, in most islands these movements are fledgling and unstable reflecting the social and economic environment within which they operate. Extensive discussions and data gathering indicate that this project will be a major step forward in helping establish good liaising relationships among the private sector within each island and within the region, as well as providing the necessary linkages to needed technical assistance and markets to strengthen the medium-size business sector of the region. There appears to be considerable enthusiasm for the project.

Each island is establishing National Coordinators Committees (NCCs) which will liaise with the Regional Coordinator in brokering technical assistance and training. In some islands such as St. Kitts, the Small Business Association is represented in both the Chamber and on the NDF; in other islands, such as St. Lucia, this is not so. The project is providing the momentum for Chamber representatives and NDFs to find common ground for collaboration. It is also providing a forum around which small businesses can cluster and cooperate. Each country is examining its own constraints and making decisions as to where the funds and expertise can best be directed to get good early results. In some islands such as Dominica it appears that the focus will be on the marketing of fresh produce regionally and on agroprocessing. In Antigua, the focus will be on agricultural production and marketing for the hotels and on services to the tourist sector. These strategies focus on economic strengths, building on those sectors which have the greatest potential for expansion and increasing employment and income.

Success in this endeavour will produce social benefits. Politically it will stabilize Eastern Caribbean societies through the expansion and secure development of a solid middle class. Socio-economically, black West Indian small business persons will have a better stake in their society and backward and forward linkages among sectors can be further established. Diversification will also be augmented and hopefully new markets found, reducing the present dependence on a few products and single markets. Most importantly, the ability to gain access to knowledge and to cooperate in buying technology and assistance will be better institutionalized within the region. The process has been developing for some time, and this project provides a forum for carrying discussions to the implementation stage. An additional benefit is better communications among small business people regionally, including possible collaboration in the marketing of select products, reducing the insularity and protectionist attitudes that have been so prevalent in the past.

c. Women

Women comprise a significant percentage of micro and small business people in the Eastern Caribbean. Virtually the entire marketing of fresh produce intra-regionally is carried on by women and they are also important numerically in agriculture production and agro-processing. Handicrafts, particularly fibre products are also dominated by women. The service industry in the Eastern Caribbean, as elsewhere, has a high proportion of women. However, light manufacturing, especially furniture making, has been considered a male occupation. Both men and women are important in garment manufacturing, at the factory level and as tailors and seamstresses.

Although women's participation in business is high and a large percentage are heads of households (nearly 50% regionally), up to now very few women have been able to make the transition from sole proprietors with few assets and little access to working capital to managers with several employees and sales which allow the generation of a reasonable income. Women, as well as men, are deficient in accounting and bookkeeping practices but they are more constrained than men in getting long term credit and working capital from banks. In many islands, if a woman is married, she needs a co-signer for a loan. Women, while very active in community organizations, are also less likely to be involved in formal private sector organizations and hence their particular constraints and needs are rarely articulated.

It is envisioned that this project will pay particular attention to sectors, such as huckstering, where women predominate and will develop assistance packages focused on the particular needs of women and thereby remove some of the barriers which have been virtually institutionalized and prohibit the expansion of women-owned businesses. There are a number of women-in-development agencies both within islands and regionally which can be hired to service particular problems that women are encountering. While cognizance will be given to women's particular problems, it is also acknowledged that many problems that women face are those facing an entire sector, and specific sectoral technical assistance will be needed by both men and women.

V. COST ESTIMATES AND FINANCIAL PLAN

Total SEAP implementation costs over the first five years are estimated at a total of US$ 13,914,000. Of this amount, an estimated US$ 10,000,000 (72%) will be provided by USAID. The local equivalent of US$ 3,914,000 (28%) will be provided from a variety of local sources, primarily in the form of commercial bank and private sector investment funds and client fees. AID's contribution will be incrementally funded, with US$ 3.9 million provided in FY 86, US$ 5.0 million in FY 87, and US$ 1.1 million in FY 88.

Of the total amount to be provided by USAID, approximately US$ 2,870,000 is directly related to the capitalization and operation of credit and investment funds. US$ 3,071,000 is directed towards the provision of technical assistance and training. US$ 2,429,000 is to support the operations of one Regional Coordinator and seven National Coordinators. The balance of US$ 1,630,000 will be utilized by RDO/C for project oversight and monitoring. Detailed budget projections are presented in Table 12.

Three summary tables are provided on the following pages. Table 11 provides a summary of project costs by fiscal year and source of funding while Tables 12 and 13 provide detailed breakdowns of project costs by expense category and fiscal year, and by expense category and source of funding, respectively. Annex H contains details of the cost estimates for selected project components.

TABLE 11

SUMMARY OF PROJECT COSTS
BY FISCAL YEAR AND SOURCE OF FUNDING

(In $000)

SOURCE OF FUNDING	1986	1987	1988	1989	1990	TOTAL
A.I.D.	2,750	2,435	2,098	1,345	1,372	10,000
Local	615	1,135	1,188	295	343	3,576
TOTAL	3,365	3,570	3,286	1,640	1,715	13,576

Table 12

SUMMARY OF

SMALL ENTERPRISE ASSISTANCE PROJECT COSTS

BY EXPENSE CATEGORY AND FISCAL YEAR

(In $000)

	FY 86		FY 87		FY 88		FY 89		FY 90		Total	
Expense Category	AID	Local	AID	Local	AID	Local	AID	Local	AID	Local	AID	Local
1. Technical Assistance												
a. SME Technical Assistance Fund	150	50	300	100	300	100	280	120	260	140	1290	510
b. Management Support to Regional Coordinator	100	0	30	0	28	0	10	0	10	0	178	0
c. PADF Technical Assistance for NDFs	200	0	100	0	0	0	0	0	0	0	300	0
d. IVS	120	0	120	0	0	0	0	0	0	0	240	0
e. IESC	100	0	100	0	0	0	0	0	0	0	200	0
Sub-Total	670	50	650	100	328	100	290	120	270	140	2208	510
2. Training												
a. SME Training Fund	100	33	200	67	200	67	193	82	170	90	863	339
Sub-Total	100	33	200	67	200	67	193	82	170	90	863	339
3. Credit												
a. NDF Credit Component	700	233	125	42	125	42	0	0	0	0	950	317
b. SME Pilot Matching Credit Fund	50	50	200	200	300	300	0	0	0	0	550	550
c. SBIC Pilot Project Investments	50	150	200	600	200	600	0	0	0	0	450	1350
Sub-Total	800	333	525	842	625	942	0	0	0	0	1950	2217
4. Other Costs												
a. Regional Coordinator Operating Costs	275	0	285	0	300	0	315	0	330	0	1505	0
b. National Coordinator Operating Costs	175	44	185	46	195	49	187	78	182	98	924	315
c. NDF Operating Costs	370	125	150	50	50	15	50	15	50	15	670	220
d. WID Operating Costs	50	15	50	15	50	15	0	0	0	0	150	45
e. Other NGOs Operating Costs	50	15	50	15	0	0	0	0	0	0	100	30
f. Project Monitoring, Audit & Evaluation	150	0	150	0	150	0	100	0	150	0	700	0
Sub-Total	1070	199	870	126	745	79	652	93	712	113	4049	610
5. RDO/C Project Management*	60	0	140	0	150	0	160	0	170	0	680	0
TOTAL	2700	615	2385	1135	2048	1188	1295	295	1322	343	9750	3576
CONTINGENCY	50	0	50	0	50	0	50	0	50	0	250	0
GRAND TOTAL	2750	615	2435	1135	2098	1188	1345	295	1372	343	10000	3576

*This line item provides for an AID Project Manager and will be obligated through an AID direct contract.

TABLE 13
SUMMARY COST ESTIMATES AND FINANCIAL PLAN
SMALL ENTERPRISE ASSISTANCE PROJECT BY EXPENSE CATEGORY AND SOURCE OF FUNDING

(US $000)

	USAID		LOCAL		TOTAL
Expense Category	FX	LC	FX	LC	
1. Technical Assistance					
a. SME Technical Assistance Fund	500	790	-0-	510	1,800
b. Management Support to Reg. Coord.	178	-0-	-0-	-0-	[illegible]
c. PADF Technical Assistance for NDFs	300	-0-	-0-	[illegible]	300
d. IVS	240	-0-	-0-	-0-	240
e. IESC	200	-0-	-0-	-0-	200
Sub-Total	1,418	790	-0-	510	2,718
2. Training					
a. SME Training Fund	363	500	-0-	339	1,202
Sub-Total	363	500	-0-	339	1,202
3. Credit					
a. NDF Credit Component	-0-	950	-0-	255	1,205
b. SME Pilot Matching Credit Fund	-0-	550	-0-	700	1,250
c. SBIC Pilot Project Investments	-0-	450	-0-	1,500	1,950
Sub-Total	-0-	1,950	-0-	2,455	4,405
4. Other Cost					
a. Reg. Coord. Operating Costs	305	1,200	-0-	-0-	1,505
b. Nat. Coord. Operating Costs	-0-	924	-0-	315	1,239
c. NDF Operating Costs	-0-	670	-0-	220	890
d. WID Operating Costs	-0-	150	-0-	45	195
e. Other NGO's Operating Costs	-0-	100	-0-	30	130
f. Project Monitoring, Audit & Eval.	-0-	700	-0-	-0-	700
Sub-Total	305	3,744	-0-	610	4,699
5. RDO/C Project Management	680	-0-	-0-	-0-	680
Total	2,766	6,984	-0-	3,914	13,664
Contingency	250	-0-	-0-	-0-	250
GRAND TOTAL	3,016	6,984	-0-	3,914	13,914

All amounts related to technical assistance, training, credit and investment funds will be managed by Caribbean Association of Industry and Commerce (CAIC) on the basis of a single grant to that organization. CAIC will, in turn, be responsible for the administration of the various funds. All disbursements will be handled according to standard USAID procedures in such a way as to be responsive to the varying disbursement schedules and development rates of the individual project components. Close RDO/C monitoring will be required in order to insure that the transfer and application of project funds is carried out effectively and according to overall project guidelines.

A more detailed description of the organizational structure through which funds will pass is included in section III.D. Although the ultimate responsibility for fund utilization will lie with the CAIC Executive Director, day-to-day responsibility will be in the hands of the SEAP Regional Coordinating Unit of CAIC. The various funds (Technical Assistance, Training, Credit and Investment) will be managed by the respective section heads according to pre-established budget projections and guidelines.

VI. IMPLEMENTATION PLAN

A. Implementation Schedule

All Project activities are scheduled to take place over a period of five years from the date of the signing of the Grant Agreement. The Project Assistance Completion Date (PACD) is December, 1990. An implementation schedule for initial activities is presented in Table 14.

Prior to disbursal of any and all funds, an independent analysis of CAIC's financial accounting system will be conducted. This analysis will identify and rectify any weaknesses in the system which would limit CAIC's capacity to adequately respond to AID's financial management and reporting requirements. The accounting firm carrying out this analysis will further certify that the system is adequate once the necessary changes have been made. AID's receipt of this certification will satisfy one of the Conditions Precedent to First Disbursement.

Immediately upon signing the Grant Agreement, USAID will hire a Regional Coordinator (RC) under a Personal Services Contract who will be in place by late January. Upon his assumption of duties, he will immediately begin recruitment of staff for the Regional Coordinating Unit (RCU), which he will head. This staff should be in place by the end of January, 1986. Simultaneously, the RC will begin recruitment of a management consultant to assist the RC in developing and implementing management systems and procedures. The consultant should be on board no later that the beginning of February, 1986 and will be retained for approximately six months. An immediate activity as well will be arranging for an independent audit of the financial systems of the NDFs.

During January and February, 1986, the Regional Coordinating Unit will be organized, including identification of suitable space, acquisition of necessary furniture and equipment, obtaining phones, etc. By early February, logistical arrangements should be complete.

Also during January, the Regional Coordinator (RC) will begin to contact those individuals at the national level who will be establishing National Coordinating Committees. At this time the respective NCCs will be requested to prepare for RC review a national work plan which establishes priorities and plans for enterprise development and identifies the national private sector entities which will benefit from Project resources.

During February, 1986, Project management procedures for the RC and NCs will be developed and reviewed by AID and CAIC.

These procedures will include a system for Project monitoring and evaluation. The Project management system, including monitoring and evaluation, will be in place and fully operational by April, 1986.

CAIC will negotiate contracts and agreements with a number of organizations and individuals during January and February. During January, a contract with PADF will be negotiated. This eighteen month contract will finance a full-time person to upgrade the skills of the NDF staffs and ensure proper implementation of financial control systems. During February, contracts will be signed with the International Executive Services Corps (IESC), which will assist in business start-ups, the International Voluntary Service (IVS), which will provide access to regional people who are skilled in various aspects of business development such as marketing or management, and other organizations which will provide long-term assistance in various areas of technical assistance and training.

During January, the RC will begin to establish formal contacts with other donors. These discussions will be designed to assure adequate coordination between the Project and relevant donor activities. Joint programming with other donors will be a major focus of the Project.

By the end of February, 1986, the Regional Coordinator should be providing regular assistance at the national level to assist in the establishment of the National Coordinating Committees and in the selection of National Coordinators. The Regional Coordinator will also assist in the development of the national work plans and in the execution of the agreements with the various entities comprising the NCC.

By late February, 1986, sub-grants will have been negotiated with the National Development Foundations (NDFs) and with WID, Inc. to continue support which USAID has been providing to these entities. This continued financing will be utilized to support micro-enterprise development.

By March, 1985, it is anticipated that as a result of the initial work of the RC, four National Coordinating Committees will have been formed and Chairpersons elected. By April, it is anticipated that at least one of these will have selected a National Coordinator, have prepared and obtained approval for their national work plan and have executed agreements with the beneficiaries of NCC resources. These agreements will set forth the terms and conditions of their participation in the project, including local counterpart contribution. Execution of these agreements and the attribution of Project funds according to the allocations contained in the national work plan will permit the National Coordinator to initiate local training and technical assistance activities. The NCs in at least three additional countries should have initiated similar activities by May, 1986, with the remaining countries operational by the end of September, 1985. The timing of the submission of national work plans and execution of beneficiary agreements will be contingent upon the resolution of local issues.

In May, 1986, the RC will initiate negotiations with banks and private entrepreneurs aimed at establishing experimental matching loan funds and venture capital entities in at least one island. By September, it is anticipated that the first matching funds agreement will be negotiated with a bank on one of the islands. By December, at least one additional matching fund and/or venture capital entity should be negotiated.

The first meeting of the SEA Project Advisory Committee, composed of representatives from each National Coordinating Committee, will be held by August, 1986. The purpose of this initial Committee meeting will be to review existing Project policies and procedures.

All Project management systems should be installed and operating smoothly by the end of August, 1986. This would include systems for controlling project finances, for monitoring SEA's regional and national activities, for ensuring compliance with AID rules and regulations and for providing technical support efficiently at the regional and national levels.

In December, 1986 and semi-annually thereafter, the RC and the USAID Project Manager will conduct a review of the funds expended by the NCs for technical assistance and training. This purpose of this review will be to determine whether the technical assistance and training being financed with SEA Project funds are being used effectively and efficiently and whether the services rendered are responsive to the client's need.

After eighteen months of project implementation, a progress evaluation of the project will be conducted under and financed out of the evaluation component of AID's Investment Promotion and Export Development project, which will be operating out of the RDO/C's Private Sector Office. A mid-term evaluation will be conducted at the end of the third project year. The final evaluation will be conducted one month prior to project completion. Semi-annual financial audits of SEA Project funds will be carried out of CAIC.

TABLE 14

SMALL ENTERPRISE ASSISTANCE PROJECT
PROPOSED IMPLEMENTATION SCHEDULE

November, 1985	Advertisement Published for Regional Coordinator
December, 1985	Grant Agreement Signed by USAID/CAIC Advertisements Published for Three Senior Regional Coordinating Unit (RCU) Staff Regional Coordinator Interviews Completed Regional Coordinator Selected/Approved by CAIC/USAID (CP) Organizational and Procedural Guidelines for SEA Developed and Approved by CAIC/USAID (CP) CAIC Accounting System Certified as Adequate (CP) CPs to First Disbursement Satisfied
January, 1986	Regional Coordinator in Place Invitations Extended to Establish National Coordinating Committees (NCCs) Three Senior RCU Staff Selected/Approved by CAIC/USAID (CP) SEA RCU Physically Organized and Operational Contract with PADF signed SEA Donor Coordination Consultations Begin Audit of NDF Financial Systems
February, 1986	Six Month Management Assistance Contract Let and Consultant in Place (CP) Contracts with IESC/IVS Signed and Agreement with Peace Corps Negotiated Project Management Procedures for RC and NCs including Monitoring and Evaluation System Developed and Reviewed by CAIC/USAID NDF/WID Subgrants Awarded RC Begins Regular Assistance in Establishment of NCCs
March, 1986	NCCs Formed and NCs Hired in Four Countries
April, 1986	Project Management System Fully Implemented in RC and Operating NCs First NCC Agreements Executed First Training and Technical Assistance Contracts Awarded
May, 1986	Begin Negotiating Matching Fund/SBIC Components with Banks/Entrepreneurs Agreements executed with Three Additional NCCs
June, 1986	Peace Corps Advisors Attached to All Approved NC Secretariats

August, 1986	RC Management Systems Functioning Smoothly and Management Consultant Departs SEA Advisory Committee Meets to Review Progress to Date
September, 1986	Agreements Executed for All Seven NCCs First Matching Fund and/or SBIC Agreement Signed
December, 1986	First Semi-Annual Review of NCC Use of Funds
January, 1987	Second Matching Fund and/or SBIC Agreement Signed
June, 1987	First Progress Evaluation Conducted
December, 1988	Mid-Project Evaluation
November, 1990	Final Project Evaluation

B. Administrative and Monitoring Arrangements

1. AID Responsibilities

The Private Sector Office (PSO) of RDO/C will be responsible for managing the Project. A core Project committee will be established consisting of one PSO officer, a Project Development Officer and the Controller. During the initial implementation stages of the Project, the Mission's contract social scientist will also be assigned to this core committee.

The Project Committee will be assisted in contracting and procurement actions by the Regional Contracting Officer; in evaluation matters by the Program Office; in training matters by the Education Division; and in legal matters by the Regional Legal Advisor.

Since this project is deemed to require intensive mission management, a personal services contractor has been hired to serve as the Mission's PSO Officer for the Project. His initial contract is for two years, eighteen months of which will be funded from this Project. It is not known at this time to what extent his services will be required beyond that period.

2. CAIC Responsibilities

Project implementation will be the responsibility of the Caribbean Association of Industry and Commerce (CAIC). Within CAIC, a distinct unit will be established under a Regional Coordinator, who will report directly to the CAIC Executive Director. A management consultant will be hired to assist this unit during approximately the first six months of its operations.

CAIC has developed a financial control system to manage its existing USAID grant. This system will be reviewed and enhanced to accommodate the additional responsibilities under the SEA Project.

C. Procurement Plan

1. Commodities

At present, there is no specific intention to procure commodities under this Project.

2. Technical Assistance

a. USAID Project Manager

A two year Personal Services Contract of which eighteen months will be funded from the SEA Project has been executed to procure the services of a person who will serve as Project Manager of the SEA Project. This person will assure compliance of the Grantee with all USAID requirements. He will also provide intensive support to the Grantee in project implementation, carefully monitoring field activity for the Grantee and RDO/C.

b. Management Support to Regional Coordinator

Since the introduction of the SEA Project will substantially increase CAIC's management responsibilities, management technical assistance will be provided to facilitate project implementation. As soon as the Grant Agreement is signed with CAIC, a contractor will be procured for approximately six months to assist in the development and incorporation of the RC unit into CAIC. Additional technical assistance will be acquired on an as-needed basis throughout the life of the Project.

c. Long-Term Technical Assistance Grants and Contracts

While most technical assistance delivered to clients will be procured on a case-by-case basis, certain types of technical assistance will need to be available for a longer duration. It is planned that a mix of long-term grants and contracts will be negotiated with organizations such as IVS, IESC and PADF to deliver technical assistance to businesses in the Region.

d. Short-Term Technical Assistance Contracts

The majority of technical assistance delivered to clients will be procured on a short-term, case-by-case basis. A roster of available local, regional and extra-regional technical assistance resources will be developed and maintained by the Project. Since the Project aims to develop the local capability to deliver technical assistance, first recourse will be to these local delivery agents where they exist. Where they do not exist, recourse to regional or extra-regional sources will be required. For services requiring less than EC$2,500, the decision on where to procure technical assistance will be made locally and will only be reviewed at the time of fund replenishment. The National Coordinating Committee will, however, be required to establish a system which justifies the choice of a technical assistance provider. For technical assistance requiring expenditures above EC$2,500, approval of the RC will be required. All such technical assistance will be selected according to CAIC's procurement policies and procedures provided they conform with the requirements of AID Handbook 13.

3. Training

A substantial amount of training will be developed under the Project for businesspeople in the Region. It is anticipated that most of this will be developed under contracts with firms which specialize in various types of business training. Almost all training will be provided in the Region, although recourse to an existing extra-regional course may be utilized where necessary. Contractors for training are likely to be local, regional and in some cases, extra-regional. All such training contracts will be awarded according to CAIC's procurement policies and procedures provided they conform with the requirements of AID Handbook 13.

4. Grey Amendment

Every possible effort is being pursued to utilize Grey Amendment firms, where their input is appropriate, as follows:

a. USAID Project Manager

Since this person has been procured under a Personal Services Contract, there was no possibility of utilizing a Grey Amendment firm.

b. Management Support to Regional Coordinator

Because there is an urgent need to procure these services and because the procurement will be under $100,000, informal competitive procedures will be utilized. At least one Grey Amendment firm will be included among those approached to submit proposals.

c. Long-Term Technical Assistance Grants and Contracts

These grants and contracts are being let to organizations which because of their long-term involvement in the Region in various aspects of small enterprise development, have proven the need for their inclusion in Project activities. In all instances, there would be no substitute available for their capability and a decision to not include them would simply result in no grant or contract being let for that purpose. It is possible that as the Project develops, RDO/C will identify needs which cannot be met by these organizations. In this case, every effort will be made to identify a Grey Amendment firm to respond to this need.

d. Short-Term Technical Assistance Contracts

A roster of qualified technical assistance providers will be compiled under the Project. All Grey Amendment firms with appropriate technical capability will be put on that list. Every effort will be made to keep potential users aware of the capacities of these firms and to encourage their utilization in cases where extra-regional technical assistance is required.

e. Training

As in the case of short-term technical assistance, Grey Amendment firms will be made part of the roster of firms having training capability. Every effort will be made to make potential users aware of their capability and to encourage their utilization where their skills are appropriate. To the extent training outside the beneficiary countries appears necessary, the College of the Virgin Islands (an HBCU) may be an appropriate source of training.

D. Disbursement Procedures

Disbursements to CAIC will be made in U.S. dollars on a periodic advance basis. The initial advance will cover project expenditures for the first ninety days of implementation. The amount of periodic advances should be based upon an analysis of CAIC's cash requirements and should only be in amounts necessary to meet current disbursement needs. As a condition precedent to first disbursement, CAIC's financial management system will be reviewed in order to ensure that it meets the standards of fund control and accountability required under Handbook 13.

CAIC will in turn disburse to the various participating private sector organizations and institutions operating at the national level. These include the NDFs, the member organizations of the NCCs, the commercial banks participating under the Matching Credit Fund, and the SBICs. The disbursing arrangements for the relevant project components are discussed below:

1. SME Technical Assistance and Training Funds

Disbursement of these funds in each of the seven OECS territories will be based on national work plans submitted by the National Coordinating Committees and approved by USAID and the RC. These plans which will be updated annually should 1) identify the member organizations of the NCC which are expected to benefit from the SEA Project's SME Training and Technical Assistance Funds; 2) provide a budget with estimated funding allocations among organizations; and 3) estimate project expenditures for the first quarter as the basis for periodic advances. Funds will be disbursed directly to the NCC member organizations upon USAID approval of their financial management systems. At the end of each quarter, documentation justifying the actual use of the funds advanced and requesting additional funds would be submitted by each recipient institution to the RC for reimbursement.

2. <u>SME Matching Credit Fund and Small Business Investment Corporations</u>

Disbursement for the Matching Credit Funds or SBICs will be contingent upon the execution of legal agreements between CAIC and another organization such as a bank and the submission of plans for the utilization of these funds. In the case of the Matching Credit Fund, disbursements would be made quarterly upon submission of approved loans and disbursement schedules to the RC. The funds will be advanced to the NDFs to be deposited in separate accounts in the participating commercial banks.a cost reimbursement basis upon submission of documented requests . In the case of the SBIC, disbursement would be made on a case-by-case, cost reimbursable basis as result of the RC's approval of the individual project proposal.

3. <u>NDF, WID and other NGO Funds.</u>

Disbursement to the NDFs and WID is contingent upon the review and certification of their financial management and control systems as adequate as well as execution of grant agreements setting forth the terms and conditions for using project funds. A yearly plan for the utilization of these funds will be prepared by each organization and approved by the RC. On the basis of this plan, funding would be advanced on a quarterly basis. At the end of the quarter, the organization would submit documentation supporting the actual and projected use of the funds.

VII. SPECIAL PROVISIONS

The following special provisions will be included in the Project Grant Agreement.

A. Conditions Precedent to Disbursement

1. First Disbursement

Prior to the first disbursement under the Grant, the Grantee will, except as the parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

(a) A statement of the name of the person(s) holding or acting in the office of the Grantee, together with a specimen signature of each person specified in such statement;

(b) Evidence that a Regional Coordinator (RC) mutually acceptable to both AID and the Grantee is in place;

(c) Evidence that a sound and responsive accounting system for this project is in place which conforms with generally accepted accounting standards; and,

(d) A statement of the organizational and procedural guidelines and lines of authority between SEA and the Grantee.

2. Disbursement for Project Activities in a Particular Participating OECS Country

Prior to disbursement to finance project activities other than the National Development Foundations (NDFs) in a particular participating OECS country, the Grantee will, except as the Parties may otherwise agree in writing, provide A.I.D., in form and substance satisfactory to A.I.D.:

(a) Evidence that a National Coordinating Committee (NCC) representing a cross section of the private sector community has been constituted and a Chairperson elected; and,

(b) An executed agreement with the participating NCC setting forth the terms and conditions of its participation in the project, including local counterpart contribution.

3. Disbursement for Small and Medium Enterprise (SME) Technical Assistance and Training Funds

Prior to the disbursement for Small and Medium Enterprise Technical Assistance and Training Funds, the Grantee will, except as the Parties may otherwise agree in writing, provide A.I.D., in form and substance satisfactory to A.I.D.:

(a) Evidence that the SEA Regional Coordinating Unit (RCU) has in place technical assistance/training and marketing professionals who are mutually acceptable to both AID and the Grantee;

(b) Evidence that a management consultant for the SEA RCU who is mutually acceptable to both AID and the Grantee has been contracted for approximately six months and is in place; and,

(c) A description of the Grantee's contracting procedures and a copy of the contract formats.

4. Disbursement for Small and Medium Enterprise (SME) Technical Assistance and Training Funds in a Particular Participating Country

Prior to disbursement for SME Technical Assistance and Training Funds in a particular participating country, the Grantee will, except as the Parties may otherwise agree in writing, provide A.I.D., in form and substance satisfactory to A.I.D.:

(a) Evidence that a qualified National Coordinator acceptable to the Regional Coordinator has been hired and is in place;

(b) Evidence that the NCC work plan listing project activities has been reviewed and approved by the Regional Coordinator and A.I.D.; and,

(c) Evidence that an acceptable accounting and financial reporting system at the national level is in place.

5. <u>Disbursement for Matching Credit Funds and Small Business Investment Corporations</u>

Prior to disbursement for the Matching Credit Funds and Small Business Investment Corporations, the Grantee will, except as the Parties may otherwise agree in writing, provide A.I.D., in form and substance satisfactory to A.I.D., evidence that the SEA RCU has in place a finance professional who is mutually acceptable to AID and the Grantee.

6. <u>Disbursement for Matching Credit Funds and Small Business Investment Corporations</u>

Prior to disbursement to any particular Matching Credit Fund or Small Business Investment Corporation activity, the Grantee will, except as the Parties may otherwise agree in writing, provide A.I.D., in form and substance satisfactory to A.I.D.:

(a) Executed agreements between the Grantee and other parties setting forth the terms and conditions for using these funds; and,

(b) Plans for the utilization of SEA funds under the Small Business Investment Corporation and Matching Credit Fund arrangements.

7. <u>Disbursement to the National Development Foundation and Women in Development in a Particular Participating Country</u>

Prior to disbursement to the National Development Foundation or Women in Development in a particular participating country, the Grantee will, except as the Parties may otherwise agree in writing, provide A.I.D., in form and substance satisfactory to A.I.D.:

(a) Evidence that the financial management and control system and procedures have been reviewed and verified as adequate; and,

(b) Executed sub-grant agreements with the NDFs and WID setting forth the terms and conditions for using these funds, including monitoring and reporting requirements and loan policies and procedures.

B. Special Covenants

1. Subordinate Agreements. The Grantee shall covenant to submit all subordinate agreements (i.e. grants or contracts) with other organizations, firms or institutions to AID for prior review and approval if the amount involved exceeds $25,000 U.S..

2. NCC Work Plans. The Grantee shall covenant to submit annually the NCC work plans to AID for prior review and approval.

VIII. MONITORING AND EVALUATION ARRANGEMENTS

Overview

A well-conceived monitoring system is essential in tracking the quality of project responses to requests from the field in terms of efficiency, timeliness, and appropriateness, while a well-designed evaluation system is critical in assessing the effectiveness of project interventions in terms of development impact.

In order to maximize cross-country and cross-sector comparability, as well as to facilitate the collection and analysis of time-series data, the design of standardized monitoring and evaluation systems should receive high priority in the initial phase of project implementation activities. Furthermore, their design should parallel the design of internal administrative and financial record-keeping systems, not only to promote the integration of management information systems and monitoring and evaluation systems, but also to minimize duplication of effort in implementing these systems.

Monitoring Project Implementation

Since funds for the project's microenterprise assistance, SME technical assistance and training, and SME financing assistance components would flow through the Regional Coordinator (RC), the responsibility for monitoring the implementation of these components would lie with the RC. The factors to be taken into consideration by the RC in tracking the various project components are discussed below:

Microenterprise Assistance

The RC should monitor:

- o the flow and application of project inputs, in terms of the number and type of microenterprises which receive project-sponsored technical and financial assistance, as well as the nature and quantity of this assistance; and

- o the immediate results of these project inputs, in terms of NDF and WID feedback on the quality and timeliness of project-sponsored technical assistance and training, as well as NDF and WID loan portfolio size, composition, and quality.

SME Technical Assistance and Training

The RC should track the flow and application of technical assistance and training resources in terms of:

- o the number and type of firms receiving technical assistance;
- o the types of technical assistance provided;
- o the number of individuals, firms, and institutions participating in training activities; and,
- o the nature and scope of training activities carried out.

In addition, the RC should monitor the immediate effects of project-sponsored technical assistance and training in terms of:

- o the timeliness of assistance provided;
- o the appropriateness of assistance provided; and
- o the quality of assistance provided.

SME Financing Assistance

In tracking the progress of the Matching Credit Funds (MCFs), the RC should monitor:

- o the drawdown and application of MCF funds, that is, how much money is disbursed, to whom, on what basis; and
- o the value, composition, and performance of MCF loan portfolios.

In tracking the progress of the Small Business Investment Companies (SBICs), the RC should monitor:

- o total SBIC share capital raised locally;
- o the nature of SBIC financing activities;
- o the repayment record of beneficiary SMEs to commercial banks and, when applicable, to the SBIC; and
- o SBIC financial performance.

With the NDFs, MCFs, and SBICs, such project monitoring should be an integral part of standard operating procedures, via the submission of quarterly and annual reports, and should utilize standardized reporting formats derived from the internal records and bookkeeping of the participating commercial banks, NDFs, and SBICs. The basis of the monitoring system for SME technical assistance and training should be quarterly reports submitted by the National Coordinators (NC), in standardized formats derived from regularly maintained internal records and accounts. The RC should, however, supplement these regular reports with periodic field visits to participating institutions and enterprises, as a cross-check and refinement of its standardized reporting system.

Overall Project Operations

Although the above presentation briefly describes systems for monitoring the discrete components of the Small Enterprise Assistance Project, it is important for the donor, AID, also to monitor the activities of the project as an integrated effort. That is, as the project progresses, AID will be faced with funding tradeoffs among various project elements and institutions, and should be in a position to make informed decisions about the relative tradeoffs involved.

Thus, it is not sufficient to monitor project components without also tracking the interaction of these components with each other, and with outside activities and organizations. This can be done by:

- regularly compiling project component data;
- comparing and contrasting these data over time;
- conducting pattern analyses for project strengths, weaknesses, and interrelationships; and
- tracking the activities and performance of the project's Regional Coordinator.

Evaluating Project Impact

RDO/C is in the process of securing the services of a Contractor who will be responsible for both evaluating the projects managed by the Private Sector Office, and assisting RDO/C in establishing a system for monitoring private sector projects. Early in 1986 the Contractor will work with RDO/C and the Regional Contractor in designing a monitoring and evaluation system for the various components of SEA. This will include methodology for the collection of baseline data in a mumber of areas including: number and kind of enterprises financed, number of permanent and part-time employment opportunities created, demographic data, and changes in income of employees and entrepreneurs. Additionally, methods will be designed for measuring impacts, assessing performance of project management structure, assessing effectiveness of administrative relationships between all parties including RDO/C staff, the Regional Coordinator, the National Coordinators and the NDFs.

The Contractor will be able to assist RDO/C and SEA in putting the monitoring system into place at both the regional and national levels as well as to test the system by carrying out a progress evaluation after the first eighteen months of the project. Mid-term and final evaluations will also be carried out utilizing baseline and ongoing data gathered by the RC, NCs and NDFs. Audits will be conducted on a semi-annual basis.

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E.O. 12356: N/A
TAGS:
SUBJECT: SMALL ENTERPRISE ASSISTANCE PID (538-0133)

1. THE PID WAS REVIEWED AND APPROVED ON MAY 17. THE MISSION IS AUTHORIZED TO APPROVE THE PP AND AUTHORIZE THE PROJECT. THE FOLLOWING SHOULD BE TAKEN INTO ACCOUNT IN COMPLETING PROJECT DEVELOPMENT.

2. PROJECT PURPOSE. THE PURPOSE STATEMENT IS TOO BROAD AND WOULD BE MORE APPROPRIATE AS A GOAL. A MORE NARROW PURPOSE WHICH DEALS WITH INCREASING ACCESS TO DELIVERY OF SERVICES FOR SMALL BUSINESSES, OR TO INSTITUTIONALIZATION OF AN ASSISTANCE SYSTEM TO HELP INCREASE THE PRODUCTIVITY OF SMALL BUSINESSES SHOULD BE ADOPTED.

3. PROJECT STRATEGY. THE PROJECT WOULD REQUIRE CONTINUED SUBSIDIZATION OF SERVICES TO SMALL BUSINESSES DURING IMPLEMENTATION AND AFTER THE PROJECT ENDS. WHILE IT WAS ACCEPTED THAT THE SMALL SIZE OF THE TARGET BUSINESSES, THEIR LARGE ASSISTANCE NEEDS, AND THE DIFFERING POLICIES AND ATTITUDES OF THE SERVICE PROVIDERS, THROUGH WHICH THE PROPOSED ASSISTANCE WILL BE CHANNELED, MAY MAKE SOME SUBSIDIZATION UNAVOIDABLE, THIS WAS SEEN AS DISTINCTLY UNDESIRABLE. IT WAS AGREED THAT THE PROJECT PARTICULARLY THE LENDING OPERATIONS SHOULD BE DESIGNED TO BE AS FINANCIALLY SELF-SUSTAINING AS POSSIBLE BY THE END OF THE PROJECT. ACTIVITIES SHOULD BE DESIGNED AND SCALED ON THE PRINCIPLE THAT THAT EACH NATIONAL FOUNDATION SHOULD ACHIEVE AND EACH TA ORGANIZATION SHOULD SEEK TO ACHIEVE FULL COST RECOVERY FOR ITS SERVICES BY THE END OF THE PROJECT. MAXIMIZING THE POSSIBILITY OF APPROACHING FULL COST RECOVERY WOULD DEPEND ESSENTIALLY ON RAISING INCOME TO THE SERVICE PROVIDERS AND/OR CUTTING COSTS. PRACTICAL MEASURES THAT COULD HELP ARE:

A. INCREASING INTEREST RATES AND CHARGES FOR LOAN AND GUARANTEES. MISSION REPRESENTATIVES ADVISED THAT COMMERCIAL BANKS IN THE RDO/C COUNTRIES NOW CHARGE BETWEEN 11 PERCENT AND 14 PERCENT. SOME OF THE SMALL BUSINESSES THAT COULD BENEFIT FROM THE PROJECT'S CREDIT FUNDS ARE CURRENTLY PAYING MANY TIMES THE CURRENT

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INTEREST RATE AND WOULD BE PLEASED TO RECEIVE A LOAN AT ONLY 25-30 PERCENT. EVEN IF THE AID FUNDS ARE PROVIDED ON A GRANT BASIS, COMMERCIAL RATES ARE CLEARLY INSUFFICIENT TO COVER ALL COSTS INCLUDING RISK AND TECHNICAL ASSISTANCE. EVEN THE STREET RATE MIGHT BE INADEQUATE.

IN FINAL DESIGN OF THE PROJECT, A MECHANISM SHOULD BE DEVELOPED TO CHARGE A COMBINATION OF INTEREST RATES, FEES, AND/OR COMMISSIONS WHICH COVER TO THE MAXIMUM EXTENT POSSIBLE, THE COSTS (INCLUDING T.A.) AND RISKS IMPLIED BY MANY SMALL LOANS TO SMALL AND MICRO-BUSINESSES WITH SMALL EQUITY AND LITTLE OR NO LOAN EXPERIENCE. IT IS EXPECTED THAT THE RATES WOULD FALL BETWEEN THOSE CHARGED BY COMMERCIAL BANKS AND STREET CORNER LENDERS. THE MISSION SHOULD CAREFULLY EXAMINE ADMINISTRATIVE AND FINANCIAL VIABILITY OF WHETHER THE FEES AND COMMISSIONS CHARGED BY LENDERS COULD BE USED TO COVER SOME OR ALL OF THE COSTS OF THE ORGANIZATIONS WHICH PROVIDE ONLY TECHNICAL ASSISTANCE
IT WAS RECOGNIZED THAT THERE WOULD BE NO PERFECTLY EQUITABLE WAY OF DOING THIS, BUT IT WAS DEEMED ESSENTIAL THAT THE FINANCIAL VIABILITY OF THE SERVICE DELIVERY AGENCIES BE ASSURED SO THEY CAN SERVICE SMALL BUSINESSES. TO ENABLE MISSION TO EXPLORE DESIGN OPTIONS LAC/DR WILL FORWARD TO RDO/C INFORMATION OBTAINED FROM DIU ON AID EXPERIENCE WITH SMALL BUSINESS DEVELOPMENT PROJECTS.

B. REDUCING DELINQUENCY RATES. SOME OF THE POTENTIAL SERVICE PROVIDERS (NGO'S AND OTHER ORGANIZATIONS WHICH

PROVIDE BOTH T.A. AND CREDIT) HAVE DELINQUENCY RATES ON THEIR EXISTING LOAN PORTFOLIOS OF UP TO 50 PERCENT. EVEN WITH SIGNIFICANT INCREASES IN INTEREST RATES, DELINQUENCY RATES OF THAT MAGNITUDE WILL MAKE COST RECOVERY IMPOSSIBLE. AS A MATTER OF BOTH POLICY AND GOOD BUSINESS, AID SHOULD NOT BE PROVIDING NEW FUNDS TO SUCH INSTITUTIONS. THE MISSION SHOULD STUDY EXISTING CREDIT INSTITUTIONS IN THE REGION AND ASCERTAIN THEIR EXPERIENCE WITH, AND POLICY TOWARD DELINQUENT LOANS. THE MISSION SHOULD ESTABLISH A MAXIMUM DELINQUENCY LEVEL THAT WOULD BE ACCEPTABLE UNDER THE PROJECT.

SUBLENDING FUNDS AND LOAN GUARANTY FUNDS SHOULD BE MADE AVAILABLE ONLY TO SERVICE PROVIDERS THAT DEMONSTRATE THE NECESSARY MANAGEMENT ABILITY AND FINANCIAL SOUNDNESS TO MANAGE A LOAN PORTFOLIO AND HAVE A DELINQUENCY RATE BELOW THE MAXIMUM LEVEL ESTABLISHED. SERVICE PROVIDERS WITH LOAN PORTFOLIOS WHICH EXCEED THAT LEVEL SHOULD BE ELIGIBLE ONLY FOR TECHNICAL ASSISTANCE TO HELP THEM REDUCE THEIR DELINQUENCY TO AN ACCEPTABLE LEVEL. SERVICE PROVIDERS WHOSE DELINQUENCY RATE RISES ABOVE THE MAXIMUM

LEVEL DURING IMPLEMENTATION SHOULD HAVE THEIR PARTICIPATION STOPPED. THE PP SHOULD FULLY DESCRIBE THE DELINQUENCY POLICY TO BE FOLLOWED UNDER THE PROJECT.

C. LOWERING ADMINISTRATIVE COSTS. PERMANENT PERSONNEL OF SERVICE PROVIDING AGENCIES SHOULD BE KEPT TO A MINIMUM. SPECIFIC SERVICES NEEDED BY THE AGENCIES OR INDIVIDUAL SMALL BUSINESSES SHOULD BE SUB-CONTRACTED TO THE EXTENT POSSIBLE FROM ALREADY EXISTING ORGANIZATIONS. OPERATING COSTS MAY BE FURTHER REDUCED BY ADEQUATE TRAINING OF SERVICE PROVIDING AGENCY PERSONNEL, AND USE OF SIMPLIFIED ADMINISTRATIVE SYSTEMS.

D. CHARGING FOR TECHNICAL ASSISTANCE. THE MISSION SHOULD CAREFULLY REVIEW THE OVERALL TA NEEDS OF THE PROJECT, ELIMINATE AS MUCH OF THIS EXPENSIVE COMPONENT AS POSSIBLE, AND CHARGE FOR IT WHERE FEASIBLE. TECHNICAL ASSISTANCE TO THE RCE AND THE NCES WAS SEEN AS A ONE TIME COST TO DEVELOP THEIR CAPABILITY TO PROVIDE SERVICES NEEDED BY SMALL BUSINESSES. RECOVERY OF THIS COST WAS NOT SEEN AS REASONABLE OR REALISTIC. HOWEVER, SMALL BUSINESSES SHOULD BE CHARGED FOR THE TA TO THE EXTENT POSSIBLE; I.E. THROUGH THE CHARGES DISCUSSED IN A. ABOVE. IT WAS SUGGESTED THAT THE MINIMUM DIRECT CHARGE BE ON THE ORDER OF 25 PERCENT OF THE TA COST. CONSIDERATION COULD BE GIVEN TO A SLIDING SCALE WHERE LARGER FIRMS PAY MORE THAN 25 PERCENT AND SMALLER PAY LESS WE FEEL HOWEVER THAT 25 PERCENT SHOULD BE THE

MINIMUM.

4 PROJECT DESIGN. THE INSTITUTIONAL STRUCTURE THROUGH WHICH PROJECT RESOURCES WOULD BE CHANNELED SEEMED SOMEWHAT RIGID AND COMPLEX FOR A PROJECT OF THIS PROPOSED SIZE AND NATURE. THE MISSION IS ENCOURAGED TO REVIEW THE STRUCTURE WITH A VIEW TOWARD SIMPLIFYING THE IMPLEMENTATION ARRANGEMENTS IN ACCORDANCE WITH THE SUGGESTIONS BELOW.

A' THE REGIONAL COORDINATING ENTITY (RCE). WHETHER THE RCE IS EXPECTED TO CONTINUE FUNCTIONING IN THE CAPACITY DESCRIBED IN THE PID AFTER THE END OF THE PROJECT WAS NOT CLEAR. THE MISSION REPRESENTATIVE STATED HOWEVER THAT' WHILE A PERMANENT RCE SHOULD NOT BE COMPLETELY DISCOUNTED, THE MISSION CURRENTLY PROPOSES THAT THE RCE ONLY CONTINUE FOR THE DURATION OF THIS PROJECT, AND HELP TO TRAIN AND EQUIP THE NCE'S TO FUNCTION AFTER AID'S PARTICIPATION TERMINATES'

IF THE RCE IS A TEMPORARY ENTITY, THE PROJECT SHOULD DEVELOP A PROCESS THROUGH WHICH THE NCE'S AND OTHER SERVICE DELIVERY AGENCIES CONTINUE TO COMMUNICATE AMONG THEMSELVES, COORDINATE THEIR ACTIVITIES, AND EFFECTIVELY CARRY OUT THE PROJECT'S OBJECTIVES AFTER THE RCE'S ACTIVITIES CEASE. OF PARTICULAR CONCERN IS HOW CONTINUED TECHNOLOGY TRANSFER WOULD TAKE PLACE. I'E. HOW SMALL

BUSINESSES WOULD BECOME AWARE OF CHANGES IN THE MARKETPLACE, IMPROVEMENTS IN MANAGEMENT SYSTEMS, PRODUCTION TECHNOLOGIES, ETC. OVER TIME. IF THE NCES CANNOT BE EXPECTED TO FUNCTION WITHOUT A COORDINATING ENTITY, THEN ITS CONTINUING ROLE SHOULD BE TAKEN INTO ACCOUNT IN SELECTING THE RCE, THE RCE'S FUNCTIONS SHOULD REFLECT ITS CONTINUING ROLE, AND A SOURCE OF FUNDS TO FINANCE ITS RECURRENT COSTS MUST BE DEVELOPED IN DESIGNING THE PROJECT.

4D' NCES SHOULD BE DESIGNED TO COMPLEMENT, NOT COMPETE WITH, EXISTING SERVICE ORGANIZATIONS. THOSE SERVICES NOT EFFICIENTLY PROVIDED BY EXISTING ORGANIZATIONS WOULD BE SUPPLIED BY THE NCE, WHICH WOULD COORDINATE WITH THE OTHER ORGANIZATIONS FOR THE COMPLEMENTARY SERVICES.

THE SPECIFIC DESIGN OF THE NCE IN EACH ISLAND AND THE COMPLEMENTARY ORGANIZATIONS AND THEIR SERVICES SHOULD BE IDENTIFIED AND DESCRIBED IN THE PP. APPROPRIATE TA SHOULD BE PROVIDED DURING THE PROJECT TO ENSURE PROPER TRAINING AND PREPARATION OF THESE ENTITIES' PERSONNEL. MISSION SHOULD CONSIDER A MECHANISM, FOR ISLANDS

CURRENTLY OFFERING A FULL RANGE OF SERVICES, FOR OPERATING WITHOUT AN NCE.

THE NCES AND OTHER SERVICE ORGANIZATIONS SHOULD BE EVALUATED REGULARLY AND UPGRADED BY TA OR REPLACED BY AN NCE OR OTHER ORGANIZATION, IF NECESSARY.

5. SELECTION OF IMPLEMENTING INSTITUTIONS. CRITERIA FOR SELECTION OF THE RCE AND NCES SHOULD BE STATED IN THE PP, AND THE PROCESS FOR SELECTING THEM SHOULD BE DESCRIBED. POTENTIAL SERVICE PROVIDERS COULD PRESENT TO THE RCE PROPOSALS WHICH DEFINE WHAT SERVICES THEY OFFER, THE EXPECTED COSTS OF PROVIDING THEM, AND HOW THOSE COSTS WOULD BE RECOVERED. THIS WOULD TAKE MAXIMUM ADVANTAGE OF THE EXISING INSTITUTIONAL CAPACITY AND PROVIDE A BASIS FOR EVALUATION OF PERFORMANCE.

THE SELECTION OF A CAPABLE RCE IS PARTICULARLY IMPORTANT TO THE SUCCESS OF THE PROJECT. IT IS SUGGESTED THAT, ALL OTHER THINGS EQUAL, PREFERENCE BE GIVEN TO CARIBBEAN INSTITUTION. MISSION MAY ALSO WISH TO FAMILIARIZE ITSELF WITH THE APPROACH BEING USED BY ACCION/AITEC IN SEVERAL LATIN AMERICAN COUNTRIES, AND CONSIDER AITEC, OR A LOCAL AFFILIATE OF AITEC FOR THE ROLE OF RCE.

6. PROJECT FINANCING. NORMALLY, CREDIT FUNDS PROVIDED BY A.I.D. WOULD BE FINANCED WITH LOAN FUNDS. THE DIFFICULTY OF USING LOAN FUNDS UNDER A REGIONAL PROJECT WAS ACCEPTED AS A RATIONALE FOR GRANT FINANCING, HOWEVER, MISSION'S WILLINGNESS TO PROVIDE GRANT FUNDS FOR CREDIT AND LOAN GUARANTEES SHOULD BE RELATED TO THE WILLINGNESS OF THE SERVICE PROVIDING AGENCIES TO SATISFY A.I.D.'S CONCERN FOR ADEQUATE EFFORTS ON RECOVERY OF COSTS AND MAINTENANCE OF FUNDS IN REAL TERMS.

7. PROJECT IMPACT. THE PP SHOULD INCLUDE AN ESTIMATE OF THE INCREASED EMPLOYMENT AND INVESTMENT THAT WILL BE GENERATED BY THE PROJECT.

8. POLICY DIALOGUE. THE MISSION SHOULD BUILD INTO THIS PROJECT A MECHANISM TO DO THE RESEARCH AND CARRY OUT THE POLICY DIALOGUE REQUIRED TO BRING ABOUT AN ATMOSPHERE MORE FAVORABLE TO THE DEVELOPMENT OF SMALL BUSINESSES.

9. AUDIT/EVALUATION: THE PROJECT WILL BE DISBURSING AND COLLECTING NUMEROUS SMALL LOANS ON EIGHT ISLANDS. THIS IS A SITUATION WHICH IS DIFFICULT TO ADEQUATELY CONTROL. THE PP SHOULD INCLUDE AN AUDIT PLAN FOR EACH OF THE PARTICIPATING ISLANDS, AND A COMPLETE EVALUATION PLAN.

10' PRIOR TO THE DAEC, MISSION REPRESENTATIVES CLARIFIED THAT:

A' THE MISSION IS DESIGNING A GLOBAL EVALUATION FOR ALL PRIVATE SECTOR PROJECTS, INCLUDING THIS ONE'

B. HELP IN LOAN APPLICATION PREPARATION IS INCLUDED UNDER SMALL BUSINESS ASSISTANCE.

C' THE MISSION AGREED TO GIVE DUE CONSIDERATION TO USING AN 8A FIRM FOR PROVIDING TA TO THE RCE DURING PROJECT IMPLEMENTATION.

D. THE PP TEAM WILL INCLUDE A MEMBER WITH EXPERTISE IN WID RELATED ISSUES TO ASSURE THAT THE PROJECT DEVELOP DELIVERY CHANNELS AND, MODELS FOR CREDIT AND TA THAT TAKE INTO ACCOUNT WOMEN'S CONSTRAINTS AND NEEDS.

11. DETAILED FIRST YEAR IMPLEMENTATION PLAN. MISSION IS ADVISED THAT LAC/DP WILL NOW BE REVIEWING THE IMPLEMENTATION PROGRESS OF NEWLY AUTHORIZED PROJECTS AS PART OF THE SEMI-ANNUAL PIPELINE REVIEW. TO PERMIT INFORMED DISCUSSION, PLEASE INCLUDE DETAILED FIRST YEAR

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IMPLEMENTATION PLAN IN PP, AND INCLUDE DISCUSSION OF ACHIEVEMENT OF EACH PLANNED ACTIVITY IN SEMI-ANNUAL PROJECT STATUS REPORTS.

ANNEX A
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12. THE INITIAL ENVIRONMENTAL EXAMINATION RECOMMENDS A NEGATIVE DETERMINATION. THIS RECOMMENDATION HAS BEEN APPROVED BY LAC/DR PROVIDED THE PROJECT DOES NOT FINANCE THE PURCHASE OR USE OF PESTICIDES' SHULTZ
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5C(1) - PROJECT CHECKLIST

Listed below are statutory criteria applicable to projects. This section is divided into two parts. Part A. includes criteria applicable to all projects. Part B. applies to projects funded from specific sources only: B.1. applies to all projects funded with Development Assistance loans, and B.3. applies to projects funded from ESF.

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

A. GENERAL CRITERIA FOR PROJECT

1. FY 1986 Continuing Resolution Sec. 524; FAA Sec. 634A

   Describe how authorizing and appropriations committees of Senate and House have been or will be notified concerning the project;

   Congressional Notification sent forward and expires on December 9, 1985.

2. FAA Sec. 611(a)(1). Prior to obligation in excess of $500,000, 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 action required

4. FAA Sec. 611(b); FY 1986 Continuing Resolution Sec 501 If for water or water-related land resource construction, has project met the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See AID Handbook 3 for new guidelines.)	Not applicable (N/A)
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	To the extent the project fosters micro, small and medium-scale enterprises it will support a, b, d and e.

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.	<u>FAA Sec. 601(b).</u> 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).	The project will utilize the services of U.S. private sector organizations for the delivery of technical assistance and training.
9.	<u>FAA Sec. 612(b), 636(h); FY 1986 Continuing Resolution Sec 507.</u> 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.	Firms and organizations receiving technical assistance and training will all contribute toward the cost of services provide -- usually at least 25%.
10.	<u>FAA Sec. 612(d).</u> Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?	No
11.	<u>FAA Sec. 601(e).</u> Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?	Yes

12.	<u>FAA 1986 Continuing Resolution Sec. 522</u>. 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.	<u>FAA 118(c) and (d).</u> Does the project comply with the environmental procedures set forth in AID Regulation 16.	Yes
	Does the project or program take into consideration the problem of the destruction of tropical forests?	N/A
14.	<u>FAA 121(d).</u> 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
15.	<u>FY 1986 Continuing Resolution Sec. 536</u>. Is disbursement of the assistance conditioned solely on the basis of the policies of any multilateral institution?	None
16.	<u>ISDCA of 1985 Sec. 310</u>. For development assistance projects, how much of the funds will be available only for activities of economically and socially disadvantaged enterprises,	None

historically black colleges and universities, and private and voluntary organizations which are cont⁻olled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)?

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FAA Sec. 102(a), 111, 113, 281(a). Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions;

The project will indirectly benefit the poor of the region by providing microenterprises access to financial, technical and marketing assistance as well as training using local, regional and U.S. institutions. Women entrepreneurs will be afforded equal access to the aforementioned assistance, thus enhancing their contribution to the local economy and improving their status therein. The project aims to encourage cooperation among private sector organizations at both the national and regional level.

(c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status, (e) utilize and encourage regional cooperation by developing countries?

b.	FAA Sec. 103, 103A, 104, 105, 106. Does the project fit the criteria for the type of funds (functional account) being used?	Yes
c.	FAA Sec. 107. Is emphasis on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?	Yes
d.	FAA Sec. 110(a). Will the recipient country provide at last 25% of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed country)?	This requirement does not apply to regional projects.

e.	<u>FAA Sec 122(b)</u>. Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?	Yes
f.	<u>FAA Sec. 128(b)</u>. If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority?	Yes
g.	<u>FAA Sec. 281(b)</u>. Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civil education and training in skills required for effective participation in governmental processes essential to self-government.	The project responds to expressions of interest from micro, small and medium entrepreneurs for training and technical assistance in skills required for participation in private sector development.

5C(3) - STANDARD ITEM CHECKLIST

Listed below are statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the Agreement by imposing limits on certain uses of funds.

These items are arranged under the general headings of (A) Procurement, (B) Construction, and (C) Other Restrictions.

A. Procurement

1.	FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing commodities and services financed?	Yes
2.	FAA Sec. 604(a). Will all procurement be from the U.S. except as otherwise determined by the President or under delegation from him?	Yes
3.	FAA Sec. 604(d). If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company?	N/A
4.	FAA Sec. 604(e); ISDCA of 1980 Sec. 705(a). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)	N/A

5. <u>FAA Sec. 604(g)</u>. Will construction or engineering services be procured from firms of countries which receive direct economic assistance under the FAA and which are otherwise eligible under Code 941, but which have attained a competitive capability in international markets in one of these areas? Do these countries permit United States firms to compete for construction or engineering services financed from assistance programs of these countries?

   N/A

6. <u>FAA Sec. 603</u>. Is the shipping excluded from compliance with requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates?

   N/A

7. <u>FAA Sec. 621</u>. If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? If the facilities of other Federal agencies will be utilized, are they particularly

   Yes

suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

8. International Air Transportation Fair Competitive Practices Act, 1974. If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available?

Yes

9. FY1986 Continuing Resolution Sec. 504. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States?

Any direct A.I.D. contracts under the project will have the necessary termination provision.

B. Construction

1. FAA Sec. 601(d). If capital (e.g., construction) project, will U.S. engineering and professional services be used?

N/A

2. FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable?

N/A

3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed $100 million (except for productive enterprises in Egypt that were described in the CP)?

N/A

(51)

C. Other Restrictions

1. FAA Sec. 122(b). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter? — N/A

2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? — N/A

3. FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries? — Yes

4. Will arrangements preclude use of financing:

   a. FAA Sec. 104(f); FY 1986 Continuing Resolution Sec. 526. (1) To pay for performance of abortions as a method of family planning or to motivate or coerce persons to practice abortions; (2) to pay for performance of involuntary sterilization as method of family planning, or to coerce or provide financial incentive to — Yes any person to undergo sterilization; (3) to pay for any biomedical research which relates, in whole or part, to methods or the performance of abortions or involuntary sterilizations as a means of family planning; (4) to lobby for abortion?

Yes

b. FAA Sec. 488. To reimburse persons, in the form of cash payments, whose illicit drug crops are eradicated?

Yes

c. FAA Sec. 620(g). To compensate owners for expropriated nationalized property?

Yes

d. FAA Sec. 660. To provide training or advice or provide any financial support for police, prisons or other law enforcement forces, except for narcotics programs?

Yes

e. FAA Sec. 662. For CIA activities?

Yes

f. FAA Sec. 636(i). For purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained?

g. FY 1986 Continuing Resolution, Sec. 503. To pay pensions, annuities, retirement pay, or adjusted service compensation for military personnel? — Yes

h. FY 1986 Continuing Resolution, Sec. 505. To pay U.N. assessments, arrearages or dues? — Yes

i. FY 1986 Continuing Resolution, Sec. 506. To carry out provisions of FAA section 209(d) (Transfer of FAA funds to multilateral organizations for lending)? — Yes

j. FY 1986 Continuing Resolution, Sec. 510. To finance the export of nuclear equipment, fuel, or technology? — Yes

k. FY 1986 Continuing Resolution, Sec. 511. For the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights? — Yes

l. FY 1986 Continuing Resolution, Sec. 516. To be used for publicity or propaganda purposes within U.S. not authorized by Congress? — Yes

CAIC

CARIBBEAN ASSOCIATION OF INDUSTRY AND COMMERCE

7th November 1985

Mr. James S. Holtaway
Director
United States Agency for
International Development
P.O. Box 302
BRIDGETOWN

Dear Mr. Holtaway:

The purpose of this letter is to request a grant from the United States Agency for International Development in the amount of US$10.0 million to enable the Caribbean Association of Industry and Commerce (CAIC) to implement the Small Enterprise Assistance Project (SEA). This Project will enable CAIC to augment its capacity to respond to the needs of micro, small and medium-scale enterprises in the OECS States and Barbados. The development of these enterprises as a means to increase real incomes and provide employment is a major priority of CAIC and of the countries in the Region.

The Project establishes a distinct unit within CAIC with a Regional Coordinator as its head, reporting directly to the Executive Director. This unit (the RCU) will be responsible for the development and implementation of the project, under the policy direction of the CAIC Executive Director. Within each country, a national Coordinating Committee (NCC) will be established. The NCC will be responsible for developing and implementing a work plan. The NCC will select a National Coordinator (NC) to implement the work plan.

The SEA Project will utilize this structure to deliver technical assistance, training and a modest amount of credit to micro, small and medium-scale enterprises. The technical assistance and training provided will be based on the requirements of local entrepreneurs who approach the NC seeking assistance. After a careful diagnosis of the entrepreneurs' needs, and assuming the entrepreneur meets certain basic conditions, a contract between the entrepreneur and a suitable source of assistance, local, regional or extra-regional as required, will be negotiated which will provide the entrepreneur with the technical assistance or training required. The entrepreneur will be expected to contribute on the average 25% of the costs of assistance. Requirements for larger amounts of assistance will need to be approved by the RC.

It is anticipated that via this Project, over 2,500 micro, small and medium-scale entrepreneurs will receive much needed support. As a result of such assistance, it is expected that there will be measurable increases in the personal incomes of such entrepreneurs as well as measurable increases in the income and employment of their businesses. Regional institutions supporting business development, in particular CAIC and local business associations, will be substantially strengthened.

...2/

P.O. BOX 259, BARCLAYS BANK BUILDING
WILDEY PLAZA, ST. MICHAEL, BARBADOS.
TEL. 436-6385 CABLE: "CAINDCOM"
TELEX: 2473 CAIC WB

7th November 1985

Mr. James S. Holtaway
Director, USAID
BRIDGETOWN

We wish to assure the United States Government of our full cooperation in carrying out this Project. The support required from CAIC to carry out this Project will be provided in an expeditious manner.

We look forward to continued collaboration with A.I.D. to yield a productive and beneficial programme for small and medium enterprises in the Eastern Caribbean.

Yours sincerely,

P. A. Thompson
Executive Director

PAT:vaa

ANNEX D

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
From FY 1986 to FY 1991
Total U.S. Funding: $10 million
Date Prepared: October 1, 1985

Project Title & Number: Small Enterprise Assistance Project: (538-0133)

NARRATIVE SUMMARY	VERIFIABLE INDICATORS (EOPS)	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Program or Sector Goal:			
To increase levels of employment income, productivity and economic growth in the Eastern Caribbean countries by assisting in the development of privately owned productive enterprises.	Increased private sector employment and income. Increased private sector productivity. Increased GDP. Increased integration of local and regional economies.	National and regional statistical data. Analysis of relevant industrial sectors/sub-sectors.	Validity of development hypothesis.
Project Purpose: To increase the ability of local entrepreneurs to establish, expand or increase the efficiency of their micro, small and medium scale enterprises to produce and sell their goods and services in local, regional and extra-regional markets.	Increased production and sales of local goods and services. Increased local investment and commercial bank financing. Improved local and regional supporting services for small and medium scale entrepreneurs.	National and regional statistical data. Interim and post-project evaluations.	Validity of development hypothesis. Regional economic, political and social stability. Availability of viable business development opportunities. Availability of local financing.
Outputs:			
1. Establish a Regional Coordinating Unit (RCU) to coordinate and facilitate project activities on a regional basis	1a. Staffing and operation of the RCU. 1b. Nature and scope of assistance provided. 1c. Quality of assistance as perceived by clients.	Quarterly and annual reports submitted by operating agencies.	Willingness of commercial banks and national business associations to cooperate and support project objectives and activities.
2. Support the establishment of NCs. National Coordinating Committees	2a. Staffing and operations of National Coordinating Secretariat	Project records	Competent project management at national and regional levels
3. Assist micro-enterprises through National Development Foundations (NDFs) and the Women in Development (WID) programs	3a. Number (1,130) and type of micro-enterprises receiving technical and financial assistance. 3b. Loan portfolio size* and quality (7% of annual new loan capital as bad debts)	Interim and post project evaluations.	Demand for t.a., training and financial assistance from appropriate enterprises. Availability of appropriate training and financial resources.
4. Coordinate technical, managerial, and marketing assistance to SMEs.	4a. Number (450) and type of SMEs receiving technical assistance. 4b. Types of technical assistance provided. 4c. Timeliness and quality of technical assistance provided.		
5. Coordinate the provision of training assistance to entrepreneurs and suppporting institutions (NDFs, NCs, banks, business associations).	5a. Number of individuals, firms, institutions participating in training activities (750). 5b. Nature and scope of training activities carried out. 5c. Quality of training as perceived by clients.		

6. Establish SME pilot Matching Credit Funds.	6. Value* and per ormance of funds (4% of annual new lendin as bad debts)
7. Facilitate the establishment of pilot Small Business Investment Companies (SBICs)	7a. Total SBIC share-capital raised locally (US$ 500,000). 7b. SBIC activity and per ormance.

* See Financial Analysis

6. Establish SME pilot Matching Credit Funds.

6. Value* and per ormance of funds (4% of annual new lendin as bad debts)

7. Facilitate the establishment of pilot Small Business Investment Companies (SBICs)

7a. Total SBIC share-capital raised locally (US$ 500,000).
7b. SBIC activity and per ormance.

* See Financial Analysis

Inputs (Five Years	AID	(US$000) LOCAL	TOTAL	USAID Records
Technical Assistance	2,208	510	2,718	Operating Agency Reports
Training	863	339	1,202	Quarterly and Annual Reports by Operatin- Agencies
Credit	1,950	2,455	4,405	
Other Costs	4,049	610	4,659	
RDO/C Project Management	680	-	680	
Contingency	250	0	250	
TOTAL	10,000	3,914	13,914	

ANNEX E

I.E.E. DETERMINATION

Per STATE 178675, LAC/DR approved the PID recommendation of a Negative Determination for the Initial Environmental Examination provided that the project does not finance the purchase or use of pesticides.

I. Relationship of SEAP to Other Relevant AID, U.S. Government and Donor Projects

There is a growing interest on the part of other donors in the area of small- and medium-scale enterprise assistance. USAID itself has previously developed projects which in one way or another had an impact on this sector. The Small Enterprise Assistance Project (SEA) is meant to complement rather than duplicate or compete with these other efforts. USAID resources will be the largest component available to the sector.

However, given that USAID's resources are not unlimited and given that other donors can operate in ways which are difficult for USAID, it will be an operational tenet of this Project to undertake a proactive role in relation to other organizations. USAID will maintain regular communications with other donors and throughout the Project will seek to identify and develop other sources of support to complement and augment resources available from USAID. As such resources come on stream, it should be possible to identify areas in which USAID resources can be curtailed and transferred to areas of greater need.

The following summarizes other relevant AID, U.S. Government and donor projects or activities which have been identified as sources of support, either existing or potential, for small and medium-scale enterprises:

A. USAID Funded Projects

Caribbean Association of Industry and Commerce (CAIC)

USAID's support of CAIC began in 1980 and has been escalating since that time. The funding provided is essentially to develop the institutional capacity of CAIC and of the national chambers to support and stimulate the private sector in the Region. USAID has provided a modest amount of money to CAIC for technical assistance and training. With these funds, CAIC has facilitated the provision of assistance to a few smaller companies in the Region. A request was received from CAIC in July for additional funds which would principally be used to augment their capacity to facilitate assistance to smaller firms. USAID is proposing utilizing CAIC as the grantee for SEAP. The technical assistance and training elements of SEAP will augment current activities. Elements related to credit and to support of National Development Foundations (NDFS) will represent new directions for CAIC.

Barbados Institute of Management (BIMAP)

USAID support to BIMAP began in 1983. USAID funding is being utilized to augment the capacity of BIMAP to provide its training and consulting services to private firms in OECS countries. The program was slow in beginning, but is now operational in Dominica and Grenada. Under the program, BIMAP provides training on a sliding fee scale to groups of firms and provides tailored firm-level technical assistance. Although only a modest amount of assistance has been provided to date, it is anticipated that a larger numbers of small- to medium-scale firms will be assisted under the program as it expands. CIDA provided funding to BIMAP until the end of 1984 which allowed it to provide technical assistance and training to micro-level firms in Barbados. CIDA has indicated it does not intend to renew that support.

There is the potential for duplication of services between CAIC and BIMAP under SEA. To the extent feasible this will be avoided by defining CAIC's role in the area of technical assistance and training as that of facilitation and coordination. In contrast, BIMAP's role would be that of the resources on which CAIC draws for the provision of technical assistance and training services.

Caribbean Financial Services Corporation (CFSC)

USAID funding established CFSC to provide financing to large-scale enterprises which for a variety of reasons did not have access to commercial financial resources. Although aimed at larger-scale projects, CFSC will consider loans as small as $100,000 U.S. It is anticipated that SEA will be able to assist smaller firms to grow to a stage where they would be able to utilize CFSC financing.

Project Development Assistance Program (PDAP-II)

USAID has funded this Project since 1981 to identify and promote export-oriented, private sector industrial development opportunities. The principal focus of the Project is to identify larger off-shore firms willing to locate in the OECS countries. They also have the capacity to provide technical assistance and training support to smaller, indigenous firms which may have the potential, usually through joint ventures with foreign firms, of providing substantial short-term employment impact. In practice, this orientation limits their capacity to assist most small-to-medium-scale firms, which most often to not have the short-term capacity to expand substantially. The SEA Project will be able to focus on smaller firms which have a more modest and longer-term growth profile. SEA will, however, work closely with PDAP-II and its island advisors. It is anticipated that there will be a growing number of cases as the Project becomes operational in which SEAP's clients might be able to tie into PDAP-II clients on a subcontracting basis.

Caribbean Development Bank Support to Development Finance Corporations (EIP-II)

Under this Project, USAID provided funding beginning in 1979 to CDB which in turn could be utilized by it directly or could be made available to the Development Finance Corporations (DFCs) in the OECS countries. This funding was utilized for on-lending to small- and medium-scale industries and to support the technical assistance functions of the DFCs. This Project is now nearing its end. SEA would work closely with the DFCs in cases where a natural tie-in exists. There is, however, no intention under SEA to augment the resources of the DFCs.

Infrastructure for Productive Investment Project (IPIP)

This project, which began in 1984, will provide financing for the construction of private sector industrial estates. Control Data Corporation and Systems Caribbean Limited, are involved in a joint venture in Grenada and Antigua. They propose to duplicate the Job Creation Centers which Control Data has successfully developed in the U.S. These Centers typically provide technical assistance, training, common facilities and services, etc., to support smaller firms. If these Centers are developed, there may be a tie-in to SEA.

Regional Non-Formal Skills Training

USAID in collaboration with the Organization of American States (OAS) provided funding ($1,312,000) to initiate this Project in 1982 in Barbados, Dominica and St. Lucia. In 1985, with additional USAID funding ($3 million), the Project was extended to include Antigua and Barbuda, Grenada, St. Kitts-Nevis and St. Vincent and the Grenadines. The Project is designed to address the problem of unemployment among youths (ages 15-25) by providing them with appropriate non-formal skills training and support services.

The Project placed about 70 percent of those trained into salaried and self employment. It established important links with the private sector (in Barbados, Dominica, and St. Lucia so far) by providing training directly responsive to the needs of many small and medium-scale businesses and by using many of these businesses as training centers. In many instances, personnel from these and other private sector businesses were used as instructors. The SEA Project will coordinate closely with this Project in order to ensure that the people trained for self employment receive adequate support in the establishment of their businesses.

B. A.I.D. Centrally Funded Activities

International Executive Services Corps (IESC). This organization has been providing technical assistance to local firms with AID/W funding for several years. Their work seems to be highly respected in the Region. They are one of the only firms which can legitimately claim to have been successfully assisting small and medium-scale firms. LAC Bureau has recently made a grant to IESC to establish a Joint Venture Feasibility Fund (JVFF). The JVFF resources may be utilized to pay for feasibility studies and to identify joint venture partners for small- and medium-scale ventures in the CBI countries. The Grenad Mission recently signed a two-year agreement with IESC to allow it to provide more intensive support particurily to business start-ups. Under SEA, we would propose a grant to IESC which would allow them to undertake the same type of work in the other OECS countries and Barbados.

International Voluntary Services, Inc. (IVS). IVS recently began a highly innovative project in the Region with central funding. Regional people were recruited who were specialists in particular disciplines. These disciplines include post-harvest technology and marketing, financial management and planning, small business and handicraft development, entrepreneurship development and job skills training for youth. Each advisor was placed on a particular island, but will be available to work on other islands as well. The long-range plan is to establish a self-sustaining regional organization of competent West Indian development technicians who would maintain continue their present activities after IVS phase out. The SEA Project would utilize and augment IVS capability in areas related to small enterprise development.

PRE is also in the process of developing several new programs, which would place a number of technical resources at the disposal of RDO/C. Of particular interest is a project which would focus on policy issues and one that could provide technical expertise in the area of marketing.

C. Other U.S. Government Activities

United States Peace Corps

The Peace Corps has placed a number of volunteers in NDFs and other locations to assist with small enterprise development. These volunteers are, by and large, doing an excellent job. SEAP can benefit from the type of support that Peace Corps can provide. To that end, discussions have begun which would lead to placing at least one volunteer as an advisor to each of the SEAP National Coordinators.

United States Department of Agriculture (USDA)

USDA has a grant from USAID/Washington to develop marketing workshops and other mechanisms to assist CBI producers and processors of agricultural products to market in the U.S. SEAP will seek to make maximum use of this resource to assist Regional agro producers and processors to access the U.S. market.

United States Department of Commerce

The Commercial Attache has indicated a keen interest in working closely with SEA. There is a common interest in strengthening the Agrobusiness, Garments and Furniture Task Forces of the Caribbean Association of Industry and Commerce (CAIC). There is a possibility of working more closely with the Attache's office in the planning and implementation of participation by people from the Eastern Caribbean in U.S. trade fairs and other activities in the U.S. SEA will seek to develop these and other joint opportunities.

D. Activities of Other Organizations

Inter-American Development Bank, Small Projects Fund (IDB-SPF)

This Fund can be utilized to provide resources to non-government organizations (NGOs) for purposes of on-lending to micro enterprises. WID, Inc. in Barbados is a recipient of funds from this source. The National Development Foundation (NDF) in Barbados has requested funding from this source. Because none of the OECS countries are members of the IDB, they cannot access the fund directly. However, the IDB would be open to the idea of setting up a similar fund in the Caribbean Development Bank (CDB), which could then be accessed by the organizations such as NDFs in the OECS countries. This idea will be pursued with the CDB under SEA.

Barclays Development Fund (BDF)

BDF operates in many developing countries around the world. It seems to be widely respected in the Region. It provides funds to NDFs and other NGOs on soft terms which they, in turn, can on-lend to micro enterprises. Barclays has utilized the Fund in the Caribbean to encourage innovation, particularily in the agricultural sector. There are a variety of ways in which SEAP might collaborate with Barclays Bank and with BDF. These options will be pursued early in the Project.

Canadian International Development Agency (CIDA)

CIDA funding has for many years been utilized to assist in the areas of technical assistance and training to small-scale enterprise. It financed a project at BIMAP to provide technical assistance to 100 micro enterprises in Barbados. Prior to that, CIDA provided funding for technical assistance in cooperation with the Barbados Industrial Development Corporation to be utilized for small business technical assistance. More recently, CIDA has financed the Foundation for International Training (FIT). FIT funds are currently being utilized to pay the salaries of business counselors in several of the NDFs and to support these couselors with on-going training. CIDA undertook a study in 1984 which recommended a substantial increase in their assistance to small-scale enterprise. Those study recommendations were shelved for budgetary reasons and because of the known intention of USAID to move into this sector. Because of its current focus on training and considerable knowledge in the area of training for small enterprise development, discussions have been initiated with CIDA to determine its interest in expanding support in the training field. This expanded training would be focused on the NDFs and the National Coordinators to be set up in the OECS States under SEA. Either FIT or some other vehicle of CIDA's choosing would be utilized. CIDA might also focus increasing attention on the development of a business orientation in cooperatives and credit unions.

European Economic Community (EEC)

Among the projects financed by EEC under the Lome Agreement was the highly respected activity of the Irish Export Board (IEB). IEB's work during the period of its first contract tended to be focused on the development of larger firms. Under its newly-signed second contract, the IEB will be assisting the OECS States to establish the Eastern Caribbean States Export Development Agency (ECSEDA), within the OECS Economic Affairs Secretariat. Although to be established under Government auspices, IEB is hopeful of making this entity private sector in its functioning and orientation. It is planned that it would be fully shifted to the private sector after an initial period. It is intended that ECSEDA will have a small staff of professional marketing people who will work with the approximately 130 firms which IEB has identified as having potential for export. This professional staff would assist these firms to develop long-term marketing plans and then help them remove constraints to the implementation of these plans. The SEA Project intends to cooperate fully with ECSEDA and may increasingly jointly fund activities with them.

British Development Division

British aid is principally bilateral and delivered through governments. Under community development grants, a small fund has been established in most of the OECS States, which is utilized to provide tiny loans to micro entrepreneurs. This program is typically administered by the local community development offices. In St. Kitts, a Peace Corps volunteer is responsible for supervising the Fund. They provided a grant to Manitoba Institute (MIM) and Foundation for International Training (FIT) to conduct workshops and prepare management aids for micro enterprises in the OECS States. Other than this, British assistance has tended to be largely firm-specific. It has, for instance, been a major source of funding for Montserrat Sea Island Cotton. BDD carried out a study in early 1985 to determine if they should increase their level of assistance to small-scale enterprise. A variety of options were identified in that study, which would involve modest and carefully-targeted increases in BDD support for small-scale enterprise development, particularily in regard to identification of marketing opportunities in the UK, encouragement of investment from the U.K., finding ways to support the extension activities of the NDFs and in working on specific projects in the Dependencies. Initial discussions with BDD suggest it would be very interested in seeking ways to collaborate with USAID on SEA activities. Such collaboration will be a high priority of the Project.

CREDIT ANALYSIS

1. CONCEPT PAPER ON THE MATCHING FUND PROGRAM

This paper will discuss the objectives, operation and administration of the Matching Fund program which is being proposed for the channeling of credit funds to small and medium enterprises (SMEs) in the Eastern Caribbean region. Although never tried, it is believed this mechanism will entice private commercial banks to commit their own funds to that target group, thereby providing a feasible alternative to problem-prone guarantee funds.

OBJECTIVE

The objective pursued in establishing a Matching Fund program is to leverage funds from commercial banks for the financing of small and medium size enterprise activities in the region in order to: (1) increase the effect and coverage of project funds allocated to that same purpose (multiplier effect); and (2) develop over time a capacity and readiness within commercial banks to extend credit to SMEs as part of their normal lending program.

CONCEPT

Under the Matching Fund program, the Small Enterprise Assistance Project would, through a co-financing arrangement, match one for one the funds committed by commercial banks to the financing of SMEs in the region. Also, in order to entice the banks to extend such credit, the banks will benefit from the entire collateral made available by the entrepreneur.

Example: Let us consider the case of a $10,000 loan for which only $6,000 of collateral would be available. In a standard situation, the bank would normally turn the entrepreneur down, since locally-based banks normally require well over 100 percent collateral, depending on the type of collateral (generally 100-150 percent in the case of fixed assets and around 200 percent in the case of current assets and inventory). In this case, the bank is expected to agree to provide credit to the entrepreneur, since it will be covered for up to 100 percent of its $5,000 share in the loan.

OPERATION OF THE FUND

Identification and Selection of Participating SMEs

It is anticipated that in most cases potential participants in the Matching Fund program will be identified by institutions or individuals already involved in the Small Enterprise Assistance project. The entrepreneur may be first contacted by a National Development Foundation, but his operation may be too large for direct financing by the NDF, or, he may have received technical assistance through the project, and credit may have been identified as a constraint to the successful development of his business. Conceivably, the entrepreneur may also have applied directly to the bank for credit, but may not qualify for such credit under the bank's normal loan appraisal criteria.

If the entrepreneur was first identified through the project, he may conceivably receive assistance in project definition and preparation of a project document to be presented to a bank. In any case, the first step will consist of presenting a loan application to the bank. After analyzing this application, the bank will decide whether it wishes to use the Matching Fund it may in some cases decide to finance the project directly. If it decides to use the Matching Fund, it will submit the loan application to the local NDF, or any other institution preselected by the RC with AID's approval to be the Trustee of the Matching Fund program in that country. The latter will then verify that the project conforms with the program's overall objectives, and that a number of simple criteria are respected. The intention is not to have the Trustee undertake a second review of the loan application, which would unduly delay final approval and disbursement of the loan. In this respect, the Trustee would rely on the bank's sound judgement in giving its initial approval. Obtaining the Trustee's concurrence should not take more than one week in order to insure timely disbursement of the funds to the sub-borrower.

Loan Terms and Conditions

The terms and conditions normally applied to that type of loan by the bank will also apply to the Matching Fund's portion. Interest rates can be expected to be around 2 points above base rate (prime). However, the bank will also collect on the Trustee's behalf a 1 percent fee on its portion of the funding to compensate for the extra risk implied and to cover the Trustee's cost of administration. Terms should be for up to one year for working capital loans, and up to 5-7 years for investment loans.

Management of the Loan Portfolio

Once it has approved the loan, the Trustee will transfer half the loan amount to the bank. The latter will then manage the loan as its own, disbursing the funds, monitoring the client according to its own internal procedures, and collecting the instalments as they mature. Since participating banks will hopefully achieve collection performances similar to the high levels achieved with their traditional clients, the monitoring required on the part of the Trustee should be quite minimal. In any case, monthly reports on disbursements and collections will be sent to the Trustee by each participating bank, and performance will be monitored according to a number of simple criteria.

Reflows

As they collects on loans, participating banks will transfer back to the Trustee the principal and interest corresponding to the Matching Fund's share. These funds will then be used to capitalize the NDF, or any other pre-selected institution. The Trustee will in turn submit to the RC a report summarizing all Matching Fund transactions at the end of each quarter, or each time it goes to the RC for replenishment of the Fund it is managing.

2. CONCEPT PAPER ON SMALL BUSINESS INVESTMENT COMPANIES

The purpose of this paper is to briefly discuss the objectives, structure and operations of Small Business Investment Companies (SBICs) which might be established on a pilot project basis in one or more of the Eastern Caribbean countries as one SME financing component of the proposed Small Enterprise Assistance Project (SEAP). The concept, though greatly simplified and scaled down, is based on the International Small Business Investment Company (ISBIC) project for which a PID was developed by AID/W in March, 1982. That PID will serve as a useful reference for anyone wishing to review more in-depth background material than will be presented in the following.

OBJECTIVES

The objective of promoting the establishment of SBICs is to accelerate the flow of capital to productive business enterprises in the Eastern Caribbean states. The purpose is to use limited amounts of AID funds in such a way as to attract increasing amounts of privately held local capital into the investment companies and make the types of investments which will complement and attract local commercial bank credits to the same enterprises.

CONCEPT

The broad concept of the project is that the RC would invite groups of local (island-based) investors to form themselves into privately-registered investment companies and subscribe shares up to a specified minimum level. Once this is accomplished the RC would pledge to provide additional investment funds, on a proportional matching basis, in the form of soft loans (long term -- low interest) as investments are made. It would be necessary for the RC to establish some additional qualifying criteria regarding the minimum number of private local shareholders, the maximum allowable holding by a single shareholder and the availability of competent local management.

These combined funds would be used to make investments in local enterprises conforming with certain criteria agreed upon in advance as to the types of enterprises which will be eligible for SEAP support and the limits of such support. The locally raised capital could be used as the investors saw fit so long as no SEAP funds were involved. The objective of individual investments would be to complement existing capital sources for potentially viable local enterprises while generating a positive return for the local SBIC shareholders.

Any of a number of different investment mechanisms might be used by the SBIC with all of them attracting commercial (local market) rates of return. These mechanisms would include long-term debt financing for plant and equipment or agricultural development costs, direct equity investments with or without buy-back options, guarantee mechanisms which could be used to offset commercial bank collateral requirements or other creative financing mechanisms.

DISCUSSION

Among the advantages of such a scheme are that it would increase the flow of local capital to local enterprises which would not otherwise qualify for commercial bank financing due to their lack of required equity and/or collateral. Besides this, in some areas it would serve to stimulate the beginning of a local capital market which does not exist now in any organized sense.

Another positive aspect of the SBIC concept is that the involvement of local investors, presumably successful local business people and professionals, and the availability of SBIC management should also increase the availability of informal technical and managerial assistance to the entrepreneur.

Another advantage is the relatively low risk of undertaking the pilot project. No project funds would be transferred to the SBIC until all organizational steps are carried out and actual investments are made using the shareholders own funds. If the concept simply doesn't take off within a reasonable time frame due to a lack of investor interest or other reasons, project funds can simply be reprogrammed. Risk is thus limited to the viability of the SBIC investments themselves.

The primary disadvantage of the concept, of course, is that it might not work. In interviews throughout the region, the SEAP design team has sought the reaction of local bankers and business people to the concept. The reaction was generally positive to the concept but doubts were raised that local investors could be found to participate in the SBICs. There were a number, however, who noted that this type of activity is already taking place on an informal basis and that it would not be at all difficult to attract investors to a SEAP-supported SBIC where their own investment funds would be leveraged by those of SEAP. Some doubted that there would be sufficient investment opportunities in the small economies involved to effectively utilize such a fund, while others felt that it could be an effective boon to promoting SME development in the region.

Some people feel that such a fund operated locally with no exteral control would become an instrument of cronyism, nepotism or political abuse. While it may not be possible to eliminate such factors entirely, the fact that the investors are working with their own money and that they will be seeking to match their investments with commercial bank financing should ensure that efforts will be made to ensure that only potentially viable projects are supported.

One person interviewed in Barbados noted that it might be possible to attract investments from the savings and loan cooperatives which would also serve to give the SBIC greater influence over the commercial banks as a result of their large deposit holdings in those institutions. This would have to be undertaken very carefully, if at all, in order to protect member savings, but it does offer an interesting possibility.

The negative experience of the Caribbean Investment Corporation (CIC) is also cited as a reason for special caution in undertaking this type of activity. There are several key differences, however, in the way the SBICs would be structured. First, and most important, is that each SBIC would be based and operate solely in one island state and would focus on making, and closely supervising, a larger number of much smaller local investments than were undertaken by CIC on a region-wide basis.

Another difference is that where the CIC committed a large portion of its total investment resources to equity investments with relatively long pay-off periods which led inevitably to cash flow problems, the SBICs would seek a mixture of investment instruments to balance their short term cash needs against longer term dividends and capital gains. It is likely that the majority of investments in the small enterprises which are the target of this activity will be seeking debt rather than equity financing or, at least, a mix of the two.

Still another area in which this activity should differ from CIC is in the mode of calling down local share payments and of matching them with SEAP contributions. More research is necessary before suggesting precisely how this would be accomplished but the CIC experience should be instructive in helping to identify appropriate mechanisms.

There are also similarities between the SBIC concept and the USAID-supported Caribbean Financial Services Corporation (CFSC). The major difference between the two is that the SBIC would be locally based where the CFSC is regional and that the SBIC would assist much smaller enterprises than can be reached by the CFSC which has a minimum investment level of US$100,000.

COST

This program should be initiated on a trial basis in no more than OECS territories. Initially SEAP might agree to provide up to US$200,000 against a matching (equal) amount from local investors. These funds should be drawn down over a relatively long period (2-3 years) and the limits might be adjusted from time to time on the basis of experience.

In neither case is it suggested that the SEA Project provide direct financial support for the overhead (administrative) costs of the SBICs.

Although it may not be possible to make SEAP contributions to the SBICs in the form of loans in the normal fashion and require them to repay in U.S. dollars, a modified loan format should be sought whereby they can repay in local currency either directly to another local institution such as the National Development Foundations. Grant support for this type of activity is probably not appropriate and should not be necessary if the concept is viable. If the concept proves not to be viable, it should be dropped.

SUMMARY OF PLUSSES AND MINUSES OF SBIC CONCEPT

PLUSSES

Increased flow of local private investment capital to SMEs.

Increased flow of commercial bank financing to SMEs.

Encourage development of local capital market.

Private sector management and initiative (demand driven).

Increased availability of technical and managerial assistance to assisted SMEs.

Low cost and low risk to USAID.

MINUSES

Possible lack of local investor interest and participation.

Possible lack of bankable projects.

Possible direction of investments to personally or politically favored entrepreneurs.

Possible management weakness in SBICs.

Possibility that allocated funds would not be drawn down.

Cost Estimates for Selected Project Components

The following project components are keyed to the line items contained in Table 12.

A.I.D.

1. Technical Assistance

a. SME Technical Assistance Fund

A modest fund will be established in each OECS country to be drawn down in response to locally identified technical assistance needs. It is assumed that an average technical assistance intervention will cost approximately $5,000, of which an average of 25% will be paid by the client. In the first year, approximately $20,000 will be set aside for each of the OECS countries. This will allow for approximately five interventions per country. This is considered sufficient in view of the fact that many countries are not considered likely to have their fund operational until well into the calendar year. During the second and third calendar year, these funds double from $150,000 to $300,000 which under these cost assumptions would allow for approximately ten interventions per country. During the fourth and fifth calendar years, it is assumed that the number of interventions will remain constant, but that the proportion paid by the client will increase. The Project funds allocated for those years, therefore drops to $280,000 for CY89 and $260,000 for CY90.

b. Management Support to Regional Coordinator

This line item allows for management consultancy to CAIC as it seeks to undertake substantial new roles.

c. PADF Technical Assistance

Most of the NDFs are still in their first few months of operation. They will continue to need the type of training assistance which PADF has provided in the past to help them gradually upgrade their internal management competence. PADF will be provided with a sub-grant of $300,000 to provide such training over the first 18 months of the SEA Project.

d. International Voluntary Services (IVS)

This line item will establish a team of IVS technical consultants who can assist CAIC and the National Coordinators in the technical areas considered to be of highest importance to SMEs. For this purpose, $120,000 is set aside for each of the first two years.

e. International Executive Services Corps (IECS)

This line item will permit IECS to expand current assistance to firms, to undertake identification and development of new venture opportunities and to provide intensive assistance in business start-up. For this purpose, $100,000 is set aside for each of the first two years.

2. Training

a. SME Training Fund

A fund will be established which can be drawn down in response to locally identified initiatives or a centrally developed program for the purpose of providing training for local entrepreneurs and those providing services to entrepreneurs. It is anticipated that the average cost of training will be $1,600 per trainee, of which an average of 25% would be born by the trainee. During the first year, $100,000 is set aside for training, which would permit the training of 83 people in the OECS countries. During the second atnd thrid years, this figure is doubled to $200,000 permitting the training of approximately 165 people per year. This figure is reduced to $193,000 the fourth year and to $170,000 the fifth year on the assumption that training levels would remain constant but that a larger proportion of costs would be absorbed by the clients.

3. Credit

a. NDF Credit Component

Currently there are seven NDFs being supported by USAID: Barbados, St. Lucia, Antigua, St. Vincent, St. Kitts, Dominica and Grenada. There is some likelihood that Montserrat may establish an NDF in July 1986 and seek USAID support. The $250,000 provided in the SEAP budget will cover partial year financing needs for the remainder of FY 86. Requests to the SEA Project from the NDFs for the period FY87 and FY88 are likely to exceed this level. Since other donors are interested in the NDFs, it is likely that the SEA Project can broker additional needs from other sources and that the Project can retain funding levels for the NDFs at $250,000. A total of $150,000 is set aside to cover NDF operating costs for each of the first three years. NDF needs during FY89 and FY90 are likely to continue to be high. However, it is anticipated that by that time, other donors can meet most NDF needs, and remaining funds from the SEA Project ($110,000 each year) in other category can be utilized to encourage experimentation on the part of NDFs aimed at reducing costs, and increasing outreach and effectiveness of services.

b. SME Pilot Matching Credit Fund

Although the banks are liquid, access to funds is limited in the case of SMEs. This Matching Credit Fund is an experiment to leverage banks to lend to SMEs. A fund of $200,000 each for the first two years and $300,000 the third year is set aside to be matched by the same amount from local banks to establish experiments on two islands initally.

c. SBIC Pilot Project Investments

Funds under this line item would be utilized in an attempt to mobilize local resouces for productive investment and to provide longer-term and more flexible financial support for SMEs. SEA Project funds would not be drawn down until local investments were made. A fund of $100,000 the first year and $200,000 the second and third years is set aside. It is anticipated that each dollar of Project funds will generate three dollars of local funds.

4. Other Costs

a. Regional Coordinator Operating Costs

This line item covers the anticipated costs of operating the Regional Coordinator function within CAIC. It includes the salary of four professional staff ($100,000 per year), four clerical staff ($50,000 per year), office operations ($50,000 per year), travel costs ($39,000 per year) and meetings/publications ($36,000). An inflation factor accounts for increasing costs each year.

b. National Coordinator Operating Costs

This line item covers the anticipated costs of operating the National Coordinating Secretariats in the seven OECS States. It includes the salary of one professional ($15,000 per year), one clerical staff ($6,000). trave; ($3,600), communications ($2,400), office operations ($2,400) and meetings and publication ($1,200). The budget assumes that an average of 25% of these costs would be absorbed from local sources. The escalation each year factors in inflation.

c. NDF Operating Costs

A total of $150,000 is set aside to cover NDF operating costs for each of the first three years. See 3. a. above.

d. WID Operating Costs

This Barbados organization received modest funding some years ago to begin its operation. It is now well established and presently provides more micro loans than any other institution in the Region. Modest SEA Project resources ($50,000 per year for 3 years) will be utilized to encourage experimentation designed to improve WID's prospects for long-term viability.

e. Other NGO Operating Costs

This line item provides for other institutions, yet to be identified, which may have excellent ideas for providing support to micro enterprises. Modest resources ($50,000 per year for 3 years) are being set aside for this purpose.

f. Project Monitoring, Audit and Evaluation

This line item sets aside funds to provide for SEA Project monitoring on a regular basis and to carry out the semi-annual Project audit as part of the general audit required of CAIC.

5. RDO/C Project Management

This line item covers the costs of the USAID Project Manager, who has been hired on a Personal Services Contract.

Local Contribution

Local contribution will be generated from a variety of sources:

1. Technical Assistance

a. SME Technical Assistance Fund: Businesses receiving technical assistance will initially be required to contribute an average of 25% of the cost of technical assistance. This percentage will be increased as additional assistance is provided to each firm.

2. Training

a. SME Training Fund: Businesses receiving training assistance will be required to contribute as in the case of technical assistance.

3. Credit

a. NDF Credit Component: Much more emphasis than in the past will be placed on credit recipients providing part of their financing needs from non-Project sources. NDF clients will also be expected to contribute on the average 25% of the cost of technical assistance and training, either financing it as part of the loan package or in some other way. Experimentation with different scenarios for achieving this will be a major element of the Project.

b. SME Pilot Matching Credit Fund: Banks will be expected to contribute at least 50% of the funds lent under this scheme.

c. SME Pilot Project Investments: Private investors will be expected to contribute 75% of the investment under this scheme.

4. Other Costs

b. National Coordinator Operating Costs: National Coordinators will be expected to generate local contributions, which could be in-kind and in the form of space, equipment, support staff, etc., equal to an average of 25% of their cost of operations.

c.d.e. NDFs, WID and Other NGOs: These organizations will be expected to generate a minimum of 25% of project costs from other sources.

ANNEX I

MISSION DIRECTOR'S GRAY AMENDMENT CERTIFICATION

"I, James S. Holtaway, as Director of the Regional Development Office/Caribbean, hereby certify that the procurement plan was developed with full consideration of maximally involving Gray Amendment organizations in the provision of required goods and services and that the project is X is not ____ appropriate for minority or Gray Amendment organization contracting."

James S. Holtaway

James S. Holtaway
Director

2/25/86
Date

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LIST OF ELEMENTS REQUIRING USAID APPROVAL

1. Name of person(s) holding or acting in the office of Grantee
2. Person who is to serve as SEA Project Regional Coordinator (RC)
3. Professional staff-persons serving in the RC unit
4. CAIC accounting system to handle financial control of SEA Project
5. Organizational and procedural guidelines and lines of authority between SEA and the Grantee
6. Management consultant to assist the RC for a minimum of six months
7. Description of Grantee contracting procedures and copy of contract format
8. Composition of National Coordinating Committees (NCCs)
9. Executed agreement between RC and NCCs setting forth terms and conditions of their participation in the SEA Project
10. Selection of National Coordinators in each OECS country
11. Annual Work Plans developed by each NCC
12. Accounting systems are in place at the National level to adequately manage SEA Project funds
13. Executed agreements between the Grantee and other parties setting forth terms and conditions for use of funds for the Matching Credit Fund or the Small Business Investment Corporations
14. Plans for the utilization of SEA Project funds for the Matching Credit Fund or the Small Business Investment Corporations
15. Acceptable accounting systems are in place in the National Development Foundations (NDFs)
16. Executed sub-grant agreements between the Grantee and the NDFs, WID, Inc. IESC, IVS and other Private Voluntary Organizations setting forth the terms and conditions for using SEA Project funds
17. All financial agreements between the SBICs and their clients, if they are seeking partial reimbursement from SEA Project funds.

ANNEX K

CERTIFICATION PURSUANT TO SECTION
611(e) OF THE FOREIGN ASSISTANCE
ACT OF 1961, AS AMENDED

I, James Holtaway, the principal officer of the Agency for International Development in the Eastern Caribbean, having taken into account, among other factors, the maintenance and utilization of projects in the Eastern Caribbean previously financed or assisted by the United States, do hereby certify that, in my judgement, the Caribbean Association of Industry and Commerce (CAIC) has both the human resources and financial capability to effectively maintain and utilize the grant assistance project: Small Enterprise Assistance Development, project number 538-0133.

This judgement is based, inter alia, upon the increasing private sector commitment, to CAIC demonstrated by membership contributions, by the increasing staff capability of CAIC, by increasing membership and other support of local business groups and by the substantial technical assistance to be made available to CAIC and local organizations within the project to assure sound institutional management.

James L Holtaway

James S. Holtaway
Director
Regional Development
Office/Caribbean