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AUDIT  
OF THE INFRASTRUCTURE FOR PRODUCTIVE INVESTMENT  
PROJECT NO. 538-0088  
AID REGIONAL DEVELOPMENT OFFICE/CARIBBEAN

Audit Report No. 1-538-87-02  
October 31, 1986

## AGENCY FOR INTERNATIONAL DEVELOPMENT

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October 31, 1986

### MEMORANDUM

FOR : Mr. James Holtaway, Director, RDO/C  
FROM : RIG/A/T <sup>James N. Gothard, Jr.</sup> Coinage N. Gothard, Jr.  
SUBJECT: Audit of Infrastructure for Productive Investment  
Project (No. 538-0088)

This report presents the results of audit of AID Regional Development Office/Caribbean's Project No. 538-0088, Infrastructure for Productive Investment. Please advise us within 30 days of any additional information relating to actions planned or taken to implement the recommendation. We appreciate the cooperation and courtesy extended our staff during the audit.

### Background

The purpose of the Infrastructure for Productive Investment Project (No. 538-0088) was to provide physical infrastructure required for expanded private production which would result in increased employment. Based on an October 11, 1985 evaluation, the project was conceived to alleviate a perceived bottleneck in the availability of industrial floor space. Expectations that the Caribbean Basin Initiative would result in stronger demand for factory space in the region also formed part of the basis for making long-term funds available for industrial estate development. Under the program, the volume of business activity in the Caribbean Region was expected to increase significantly and thereby create a demand for factory space. Results of the project were to include: the construction of 600,000 square feet of factory space, the creation of 4,000 new jobs, and the generation of an additional \$200 million in gross export sales. Financing consisted of a \$12 million AID loan and locally supplied capital totaling \$3 million. Under the terms of the loan agreement, the Eastern Caribbean Central Bank ("the Bank") located in St. Kitts was to provide to commercial banks in member countries a long-term credit facility so that they could make loans to private developers of industrial properties. The project was initiated August 30, 1984 and the anticipated project completion date was September 30, 1987. As of March 30, 1986, \$800,000 in project funds had been expended.

## Audit Objectives and Scope

The Office of the Regional Inspector General for Audit/Tegucigalpa made a program results audit of the Infrastructure for Productive Investment Project. The overall audit objective was to ascertain if the project would achieve the intended results and to determine if selected activities had been carried out in an efficient and economic manner.

Audit work was performed at the AID Regional Development Office/Caribbean (RDO/C) and at the Eastern Caribbean Bank in St. Kitts. We verified the accuracy of AID financial records, and performed such other reviews and tests as we considered necessary. Additionally, project sites in Antigua and St. Lucia were visited to interview project officials and assess overall project results. The audit was made during the period May 28, 1986 through July 31, 1986, and covered the period from project inception (August 30, 1984) to March 31, 1986 on financial matters, and to June 30, 1986 on programmatic matters. An exit conference was held on July 31, 1986. RDO/C comments offered in a response dated October 8, 1986 were considered in the preparation of this report. The audit was made in accordance with generally accepted government auditing standards.

## Results of Audit

Project objectives were not being achieved, implementation had all but come to a halt, and RDO/C management and monitoring were inadequate. On the positive side, we verified the construction of one 20,000 square foot factory shell in Antigua. RDO/C claimed that new jobs and new exports had been and were being created, but furnished no evidence to support this claim. They also commented that approval of three recent subloans was evidence that implementation had not faltered. These approvals occurred subsequent to audit field verification which ended on July 31, 1986. Finally, issue was taken with certain audit statements concerning inadequate monitoring.

Much of the planned factory space had not been constructed and there was relatively insignificant demand for more. We recommended that the project be scaled down and redesigned; deobligating \$6 million of project funds and adjusting the curtailed project to the realities of decreased demand, a conservative lending climate and competition from subsidized factory space. We also recommended that performance of the redesigned project could be improved by more careful management and better control of project commodities.

## Project Objectives were Not Being Attained

After two years of activity, only 20,000 square feet of a planned total 600,000 square feet in factory shells had been built. This lack of progress was attributable to soft demand for factory space, in turn caused by a downturn in business activity, the availability of subsidized rental space, and conservative commercial lending policies. With only limited prospects for future effective demand for AID loan funds, it was

evident that project objectives would not be attained and that at least half the \$12 million authorized for this activity would exceed project needs.

Discussion - The Infrastructure for Productive Investment Project was designed to meet a demand for factory space estimated on the results of predecessor projects, the Project Development Assistance Program (538-0042) and the Investment Promotion/Export Production Project (538-0019). Under the Project Development Assistance Program, a \$6.6 million contract was executed with Coopers and Lybrand for developing industrial projects and identifying and locating foreign investors. The Project Development Assistance Program was then followed by an authorized \$8 million project grant agreement (the Investment Promotion/Export Development Project) aimed at promoting 50 business start-ups or expansions, and ultimately creating over 15,000 jobs. In order to meet anticipated demand for factory space, a complementary Infrastructure for Productive Investment Project was implemented on August 30, 1984 with \$12 million in AID loan funds and \$3 million in counterpart funds. This project was to finance the construction of 600,000 square feet of factory space which ultimately would result in 4,000 new jobs and an additional \$200 million in gross export sales. Seventeen months after funds were obligated, only about seven percent (\$800,000) of AID's project funds had been expended.

Project objectives could not be implemented as originally envisioned because the demand for factory space had not reached expected levels. According to the project paper, demand for factory space was expected to reach 850,000 square feet for the two-year period ending in 1986. However, potential demand for factory space as of July 2, 1986 was only 180,000 square feet. In addition, already constructed facilities were not fully utilized because of a downturn in business activity in the region. The 20,000 square feet constructed under the current project were only partially occupied by a paving customer, and shells constructed in Saint Lucia under a previous project were unoccupied (see Exhibit 1).

Although soft demand for factory space was caused mainly by a lack of industrial activity, the situation was made worse by competition from government subsidized rental space and conservative banking practices.

A. Industrial Demand - The rationale for undertaking the project was that the Caribbean Basin Initiative would produce a strong demand for factory space. To alleviate an expected bottleneck in the availability of industrial floor space, the Infrastructure for Productive Investment Project was authorized. However, expected demand had not materialized; neither the Caribbean Basin Initiative nor general business activity had generated the levels of investment originally anticipated.

A consultant's report dated March 31, 1986 stated: "According to Coopers & Lybrand, new investment in the region decreased by 25 percent during the 1984-1985 period. Obviously, this has adversely affected developer's interest in building new space on speculation and has scaled back new construction in general."

Prior reviews of the two AID predecessor projects (Project Development Assistance Program and Investment Promotion/Export Production), whose purpose it was to establish a demand base, also disclosed that demand had not materialized in the expected magnitude. For example, external evaluators determined that targeted goals of 50 business start-ups or expansions in the latter project had resulted in just 20 potential starts or prospects with only 17 months remaining until the project assistance completion date. External evaluators found that only eight had produced verifiable new jobs.

B. Government Subsidized Rental Space - The viability of the project had also been placed in question by government rental pricing policies. Despite attempts by private developers to reduce their construction costs by up to 40 percent, competing subsidized rental rates of U.S. \$2.50 to \$2.75 per square foot for government owned factory space provided a strong disincentive for new developments.

Assurances for reducing or eliminating subsidized rents were not obtained from host country governments. For example, the project paper acknowledged that the economic feasibility of private industrial estates was dependent on several factors, including a reduction of subsidized rental space policies. But no formal commitments were obtained from host countries to reduce subsidized rental rates. Consequently, demand had continued to decrease because investors could not compete with subsidized rental rates.

C. Conservative Lending Policies - Borrowing for factory construction was inhibited by high minimum loan amounts, high loan collateral requirements and reluctance by banks to finance construction in a period of low demand. Nor were long-term loans generally available, as had been envisioned.

The project's U.S. \$250,000 loan floor had effectively disqualified most developers from successfully obtaining project financing for individual factory shell projects. On May 14, 1986 the minimum subloan amount was reduced from \$250,000 to \$100,000 per Project Implementation Letter (PIL) No. 4. According to Regional Development Office/Caribbean personnel, this had stirred interest from developers. However, due to its recent implementation, the effectiveness of this strategy could not be determined. The pace of project implementation to date indicated that lowering loan threshold amounts was a wise decision but still might not prove sufficient to generate the demand for space originally budgeted for in the project.

In addition, commercial banks had not honored the liberal credit terms projected in the project implementation plan. According to this plan, commercial banks were to require a minimum of 20 percent in borrower's equity while loan funds would cover the remaining 80 percent. It was expected that the physical assets of an industrial estate would meet the bank's collateral requirements. However, commercial banks had requested equity in excess of the project's minimum requirements (up to 30 percent). This conservative mood was largely generated by the absence of

demand for factory space. Given this weak demand, commercial banks were reluctant to make loans for the construction of factory space without firm occupancy commitments. Finally, long-term credit (over 10 years) was traditionally not offered in the area. The project design assumption that long-term credit would become available proved invalid.

Other financial resources for loans may be available. For example, the Overseas Private Investment Corporation (OPIC) is a U.S. Government entity with objectives similar to those of the Caribbean Basin Initiative. Since three of the 17 potential investors are U.S. companies, OPIC may be another source for obtaining private investments.

The Mission realized that these problems would substantially delay project implementation, yet, aside from lowering the loan floor, they took little action. Documentation prepared by AID-hired consultants identified design problems but the Regional Development Office/Caribbean took few corrective measures (see Exhibit 2). For example, on October 2, 1985 the Regional Development Office/Caribbean held a review of the project which resulted in the project being classified as a "C" project. This meant that the project had major problems which required management attention.

An internal working memorandum dated February 21, 1986 stated, "Prospects are that the project will work, but slowly, and probably will not use more than half of the AID loan - \$6 million means 15 factories ... a total target of 300,000 square feet." In May 1986 the Regional Development Office/Caribbean addressed the loan threshold problem by lowering the threshold from \$250,000 to \$100,000. Other than this, we found no documented efforts to redesign the project and facilitate implementation.

While some problems facing the project were well documented, other aspects were not. Estimates of industrial demand, the basis for the project, had not been verified. Project materials and infrastructure were not systematically surveyed.

D. Faulty Demand Estimates - The justification for the Infrastructure for Productive Investment project rested on anticipated need for factory space. Yet demand required for the project was not adequately quantified nor was actual need measured against this criterion.

Under the previous Project Development Assistance Program, Coopers and Lybrand were to develop industrial projects and locate investors, but no determination was made as to how many investors constituted a significant demand base. In a subsequent project, Investment Promotion and Export Development, the desired demand was quantified at more than 50 business start-ups or expansions. The Regional Development Office/Caribbean had reported to AID/Washington in its March 1986 Project Status Report that 20 business start-ups or expansions had been made. This claim had been made without coordinating and verifying base data available from Coopers & Lybrand, the project's executing entity. We ascertained from Coopers &

Lybrand that a claim of 70 business start-ups or expansions had been made: 32 under the Project Development Assistance Program, 36 for the Investment Promotion and Export Development Project and the remaining two start-ups could not be clearly attributed to one or the other. Nonetheless, we could give little credence to these figures because no random and independent verification of the demand base had been made by project management.

E. Deficient Commodity Controls - Project supplies and construction were also unverified; there were no assurances that project materials valued at about \$253,000 were consumed for project purposes because no inventories had been made. Furthermore, an AID engineering consultant was unsuccessful in performing a detailed examination of the infrastructure construction. A December 28, 1985 telex from the engineer stated, "This summarized report is based on less than adequate information.... On the basis of what we have seen, we have no reason to believe that the building proper is other than satisfactory. On the other hand, we have no evidence that conscious attention has been paid to the infrastructure."

F. Conclusions - The above examples illustrate a lack of good project management. Had management reacted sooner, it might have enabled the project to adjust to the problems it faced. The combination of faulty design, difficult circumstances and slow Mission response resulted in only 20,000 square feet of factory space being constructed and the remaining funds being unused. The most optimistic Mission reports acknowledged that only half the funds budgeted could be utilized.

According to a July 4, 1986 project summary report, 17 subprojects were expected to qualify for project funds (see Exhibit 3). With eight of the 17 projects at advanced stages of development, project officials felt that loan disbursements would approach \$5 million by the September 30, 1987 project assistance completion date. The \$5 million represented anticipated project disbursements under the most favorable operating conditions. In our view, this amount included ample reserve for contingencies in the event that additional funds proved necessary.

AID Handbook 3, Chapter 13 advises that steps be taken to deobligate AID funds whenever it is apparent that they exceed amounts actually required for the life of the project. AID handbook guidance also requires effective planning, monitoring and management to ensure that U.S. funds are utilized to produce intended project benefits.

#### Recommendation No. 1

We recommend that the Regional Development Office/Caribbean:

- a) Use its deobligation/reobligation authority to reprogram or return to the Treasury not less than \$6 million of the \$12 million in project funds; and,

- b) Change project design and implementation procedures to address:
- i. Lessened industrial demand.
  - ii. The need for alternate credit institutions to provide financing at terms acceptable to private investors.
  - iii. The need to obtain assurances from host country governments that subsidized rental rates will be reduced or eliminated.

Management Comments

AID's Regional Development Office/Caribbean generally did not agree with the audit report findings and recommendation. That portion of their 27 paragraph response relevant to the report recommendation is quoted here:

23. Comments on recommendations: despite the information offered during your July 31 exit interview and our follow-up memo of August 6 there have been only minor editorial changes in the draft recommendations as set out in the RAFs [Records of Audit Finding]. We realize that our comments and interpretations of course are not binding on you, but we respectfully again offer an opinion we hold strongly: public pace rental rates should be a matter of policy dialogue and reassurance, but rent increases will come slowly, and obtaining such assurances cannot be expected within the timeframe of an audit recommendation. Recommendation b)iii should be recast to reflect this, or deleted.

4. The status of our response to the recommendations in their present formulation is as follows: Recommendation (a): authority to deob/reob is vested in IAC. The Mission has obligation authority, but does not have a sound rationale for imply deobligating funds at this time. We propose to deal with the next recommendation first, and then return to the obligation issue. Recommendation (b): the Mission is in negotiations with the ECCB and is consulting with commercial banks and prospective investors to compose a redesign which will: enhance the attractiveness of IPIP to commercial banks and private investors; accelerate the pace of sub-lending and construction; and generate empirical data for a decision as to the ultimate timespan and loan size for this project. The redesign exercise and loan amendment should be completed this FY. The deob/reob (or simple deob) decision should be made by September 1987...

5. Restatement of recommendations: we suggest there be two recommendations, with the first to be cleared by the end of this CY, and the second by the end of FY 87. Recommendation 0. 1: the Mission should prepare for AID/W approval a project amendment authorizing changes in project design to better meet

the project goal and purpose, to improve the pace of project implementation, and to establish within one year a data base adequate to support a decision as to the project's ultimate term and size. Recommendation No. 2: by September 30, 1987 the Mission should reprogram or return to the U.S. Treasury all loan funds which will not be used by a PACD to be no later than September 30, 1989.

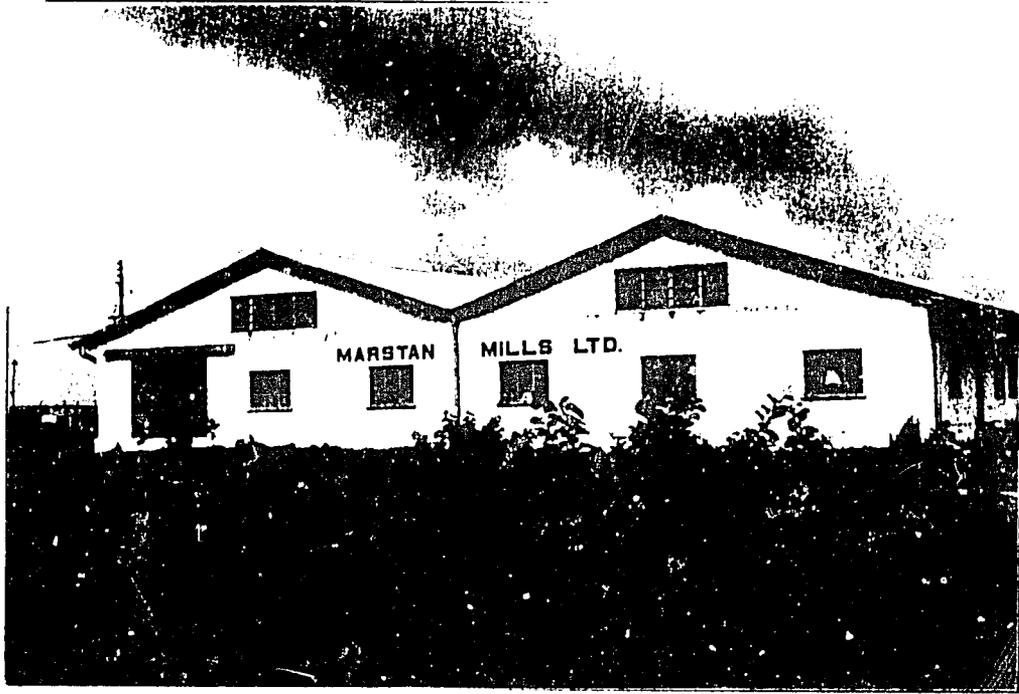
Office of the Inspector General Comments

Our review of RDO/C's private sector activities failed to reveal documentary evidence that AID funds expended to support the Caribbean Basin Initiative or predecessor RDO/C projects in the Eastern Caribbean had created an investment climate that would justify continuing this project at its originally funded level of \$12 million. The reluctance of island governments to reduce subsidized rental policies and the generally conservative posture of local financiers only add to our concerns. As a result, we find little merit in the Mission's plan to "wait and see" if conditions will change, because the groundwork that would support being optimistic about near-term developments simply does not exist.

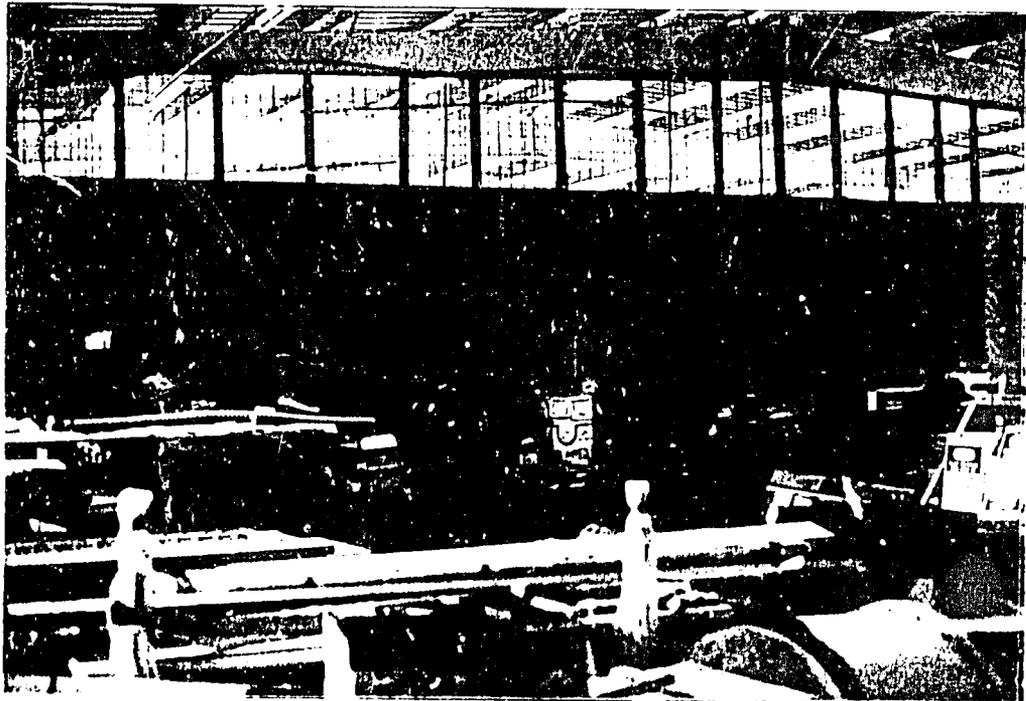
AUDIT  
OF THE INFRASTRUCTURE FOR PRODUCTIVE INVESTMENT  
PROJECT NO. 538-0088  
AID REGIONAL DEVELOPMENT OFFICE/CARIBBEAN

EXHIBITS AND APPENDICES

UNOCCUPIED FACTORY SHELLS



St. Lucia



Antigua

Chronological List of  
PROJECT DESIGN PROBLEMS

Date	Design Problem	Source	Action Taken by Mission
August 1984	There are no assurances that industrial estates could successfully compete with subsidized rentals.	Development Appraisal and Evaluation Committee, AID/W	None
June 21, 1985	Commercial banks are reacting very conservatively in their loan terms instead of the anticipated liberal credit terms.	Project Status Report	None
Oct. 11, 1985	Expected demand had not materialized.		
	Subsidized rental policies adversely affect project efforts.	Project Advisor	None
Feb. 21, 1986	Minimum threshold for banks too high at \$200,000, needed to be lowered to \$100,000	Project Advisor	Loan threshold lowered to \$100,000
Mar. 31, 1986	Slow down in Demand Subsidized Rental Policies	Free Zone Authority Contractors	None
Apr. 5, 1986	Slow down in Demand Subsidized Rental Policies	Project Advisor	None

PROJECT SUMMARY

SUBPROJECTS \ CATEGORY	POTENTIAL LOAN DISBURSEMENTS		
	Within 6 months	6-12 months	Over 12 months

GROUP I

1. LICs Ltd.	US\$130,000
2. CRABBS Marina Ltd.	170,000
3. TS Industries Inc.	700,000
4. UIP St. Lucia	400,000
Sub-total	<u>\$1,400,000</u>

GROUP II

5. DECO Industries Ltd.	\$ 300,000
6. OTTOS Industrial Park	300,000
7. Charlemagne Const. Ltd.	300,000
8. Diamond Industrial Park	400,000
Sub-total	<u>\$1,300,000</u>

GROUP III

9. LYVEK Corp.	200,000
10. Issco Trading Inc.	200,000
11. Dominica Agro Industries Ltd.	300,000
12. O.E. Pepiz Ltd.	400,000
13. Tropikiss Ltd.	200,000
14. Gita Industries Ltd.	300,000
15. Bengie's Ltd.	400,000
16. Pigotts Wood Working Ltd.	200,000
17. Blinn Garment Factory Ltd.	100,000
Sub-total	<u>\$2,300,000</u>

Total \$5,000,000

CLASSIFICATION

Potential projects were categorized into three groups under the Project Summary, Group I projects had received Central Bank loan approval or had completed almost all technical and financial requirements and had submitted proposals to commercial banks. Group II projects had received extensive technical assistance but financing negotiations were still in progress with commercial banks. In some cases, project technical requirements were incomplete. Group III projects are owner-occupier requests for long-term financing. Most of these projects will require consultant assistance but could rapidly graduate to specific financing proposals if, for example, joint-venture agreements are negotiated with potential foreign investors.

ACTION: RIG-3 INFO: CHARGE/4

EXHIBIT 4

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 DIST: RIG

AIDAC

PASS TO RIG/A/T, C.N. GOTHARD

E.O. 12356: N/A

TAGS: NONE

SUBJECT: DRAFT AUDIT - PROJECT NO. 538-0088, IPIP

REF: (A) RAFS 1,2, AND 3 (JULY 1986)  
 - (B) HOLTAWAY/FIELDS MEMO DATED 8/06/86

1. DRAFT AUDIT RECEIVED SEPTEMBER 12, 1986. MISSION COMMENTS FOLLOW HERewith IN FOUR SECTIONS: SUMMARY, TEXT, RECOMMENDATIONS, AND GENERAL OBSERVATIONS.

## 2. SUMMARY:

THE AUDITOR CORRECTLY IDENTIFIES THREE KEY CONSTRAINTS TO THE IMPLEMENTATION OF THIS PROJECT AS SCHEDULED (WITHIN THREE YEARS): INADEQUATE SPACE DEMAND FROM POTENTIAL FACTORY SHELL TENANTS; INADEQUATE FINANCING DEMAND FROM POTENTIAL FACTORY SHELL INVESTOR-OWNERS; AND THE UNEXPECTEDLY DEMANDING EQUITY AND COLLATERAL REQUIREMENTS OF THE COMMERCIAL BANKS.

- THE AUDITOR ALSO CORRECTLY OBSERVES THAT FUNDS OBLIGATED FOR THIS PROJECT HAVE BEEN DISBURSED AT A PACE MUCH SLOWER THAN THAT ENVISIONED IN THE PROJECT DESIGN. WHILE ATTRIBUTING THIS TO PROJECT DESIGN DEFICIENCIES AND TO LACK OF DEMAND, THE REPORT FAILS TO DISCERN THE RECENT ACCELERATION IN PROJECT DEVELOPMENT AND APPROVALS. IN THE PAST THREE MONTHS, THE ECCE HAS APPROVED THREE SUBLOANS TOTALLING USDOLS1.3 MILLION, BRINGING THE TOTAL APPROVALS UP TO USDOLS1.7 MILLION. TWO PROPOSALS, DECO IN GRENADA AND DIAMOND IN ST. VINCENT, ARE IN ADVANCED NEGOTIATIONS WITH THEIR BANKS. THESE PROPOSALS CONTEMPLATE STARTING CONSTRUCTION OF 120,000 SQUARE FEET THIS WINTER AT A COST OF ABOUT USDOLS2.0 MILLION. DESPITE COMPETITION FROM GOVERNMENT-OWNED SPACE, FOREIGN EXCHANGE RISKS, AND THE RELUCTANCE OF COMMERCIAL BANKS TO CHANGE ADDITIONAL PRACTICES WITH RESPECT TO LOAN PERIODS AND COLLATERAL, BUSINESSMEN ON THESE ISLANDS ARE

STEPPING UP TO USE IPIP. THE TWO LARGEST PROPOSALS ALONE (CASSADA GARDENS - ANTIGUA, AND DIAMOND ESTATES - ST. VINCENT) WOULD PUT 750,000 SQUARE FEET INTO PLACE OVER ABOUT FIVE YEARS. IN GRENADA AN IPIP-FINANCED ENTREPRENEUR BUILT A FACTORY SHELL OF HIGH QUALITY IN EIGHT WEEKS AT APPROXIMATELY DOLLS20 PER SQUARE FOOT, VERSUS CDB-FINANCED CONSTRUCTION WHICH IS COMING IN 50 PERCENT HIGHER AND TAKING TWICE AS LONG. THE LOWER CONSTRUCTION COSTS AND SHORTER CONSTRUCTION PERIODS ACHIEVABLE UNDER IPIP PERMIT SUBSTANTIAL ECONOMIES IN REAL RESOURCE USE, AND THE CREATION OF SOUND VENTURES IN THE FACE OF SUBSIDIZED COMPETITION.

EXHIBIT 4  
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- THE REPORT MENTIONS MANY CONSTRAINTS TO DEMAND FOR IPIP FUNDS. BUT OVERLOOKS ONE OF THE MOST IMPORTANT: COMPETITION FOR THE TIME AND ATTENTION OF THE TOP MANAGEMENT (OFTEN ONE MAN) OF BUSINESSES IN THE CECs COUNTRIES. TO THE EXTENT THAT SUSTAINED TOP MANAGEMENT ATTENTION HAS BEEN DEVOTED TO IPIP, THE PROBLEMS HAVE GRADUALLY BEEN WORKED OUT. THE PROCESS HAS BEEN MUCH SLOWER THAN ORIGINALLY ENVISIONED, BUT THE CONCLUSION THAT DEMAND FROM PROSPECTIVE TENANTS AND INVESTOR-OWNERS WILL NOT REACH 600,000 SQUARE FEET WILL BE PROVEN FALSE IF ENOUGH TIME IS ALLOWED. A TWO-YEAR PACD EXTENSION OF THE PROJECT TERM TO FIVE YEARS, AS REQUESTED IN THE PID AND A REASONABLE PERIOD BY AID STANDARDS, MIGHT BE ENOUGH.

3. PROJECTS OF THIS NATURE ARE BUSINESS AS USUAL ALL OVER THE UNITED STATES AND IN OTHER ADVANCED ECONOMIES. HOWEVER, IN THIS REGION THE NOTION OF A PRIVATE INVESTOR BUILDING A FACTORY TO RENT TO SOMEONE, PERHAPS EVEN TO A STRANGER, IS EXOTIC. AND THE SUGGESTION THAT PRIVATE COMMERCIAL BANKS FINANCE SUCH UNCONVENTIONAL BEHAVIOR IS STARTLING, AT LEAST TO THE BANKERS. THE LOGIC BEHIND THIS PROJECT IS TAKING TIME TO BE ABSORBED, AND THE FIRST TWO YEARS OF IPIP HAVE BEEN USED LARGELY IN A MISSIONARY EFFORT BY THE ECCB PROJECT ADVISOR AND THE RDO/C PROJECT MANAGER. PERHAPS THE DEMAND ANALYSIS THAT WAS MOST DEFICIENT IN PROJECT PREPARATION WAS AN ESTIMATE OF HOW MUCH TIME WOULD BE DEMANDED FOR IPIP TO BE ACCEPTED BY THE

COMMUNITY. TODAY EVENTS INDICATE THAT IPIP IS CATCHING ON IN THE REGION, WHILE ON SEVERAL ISLANDS THE PRIVATE SECTOR HAS ACCEPTED THE IPIP CONCEPT AND IS MAKING IT WORKABLE WITHIN THE LOCAL POLITICAL AND BUSINESS ENVIRONMENT. FOR EXAMPLE, IN ST. VINCENT AN ASSOCIATION BETWEEN PRIVATE DEVELOPERS AND THE GOVERNMENT IS IN PROSPECT, WITH AN IPIP PRIVATE ESTATE TO CONCENTRATE ON CLEAN, HIGH TECH, NON-POLLUTING, UP-SCALE SPACE, WHILE THE GOVERNMENT ESTATE FOCUSES ON ATTRACTING TRADITIONAL CUT-AND-SEW AND ELECTRONIC ASSEMBLY OPERATIONS.

EXHIBIT 4  
Page 3 of 13

4. THE MACRO-ECONOMIC CONDITIONS OF THESE ISLANDS ARE WORSE THAN WHEN IPIP BEGAN; THE NEEDS FOR EMPLOYMENT AND EXPORTS ARE GREATER; THE CREATION OF FACTORY SPACE IS STILL ESSENTIAL TO BREAKING THIS DOWNWARD SPIRAL; AND WE HAVE A PROJECT IN PLACE WHICH CAN MAKE A SIGNIFICANT IMPACT GIVEN ENOUGH TIME. WE ARE NEGOTIATING PROJECT DESIGN CHANGES AT THE THREE PROJECT LEVELS (ECCP, COMMERCIAL BANKS, THEIR CUSTOMERS) INTENDED TO MAKE IPIP MORE ATTRACTIVE TO THE COMMERCIAL BANKS AND THEIR CUSTOMERS AND THEREBY ACCELERATE BLENDING. SEVERAL CHANGES IN PROJECT DESIGN MERIT CONSIDERATION. FIRST, THE PROJECT TERM SHOULD BE EXTENDED FROM THREE TO FIVE YEARS: SUCH EXTENSIONS ARE CUSTOMARILY GRANTED FOR PUBLIC SECTOR PROJECTS, AND THERE IS A PARTICULARLY STRONG CASE FOR DOING SO FOR THIS PRIVATE SECTOR PROJECT. SECOND, CONSIDERATION SHOULD BE GIVEN TO TRANSFERRING A PORTION OF THE MARGIN PRESENTLY ACCRUING TO THE ECCP TO THE COMMERCIAL BANKS -- IN ORDER TO GIVE THE LATTER ADDITIONAL INCENTIVES TO ACCEPT APPLICATIONS FOR IPIP FUNDING ON LESS TRADITIONAL TERMS. THIRD, CONSIDERATION SHOULD BE GIVEN TO PERMITTING USE OF IPIP FUNDS IN A WIDER RANGE OF TYPES OF PRODUCTIVE INFRASTRUCTURE, INCLUDING TOURISM-RELATED CONSTRUCTION (BUT EXCLUDING HOTEL BUILDINGS), AND EQUIPMENT FINANCING FOR BUSINESSES TO BE ESTABLISHED IN OWNER-OCCUPIED SPACE. WE REQUEST THAT CONSIDERATION OF DEOBLIGATION BE DEFERRED UNTIL THE END OF THE REMAINING PROJECT YEAR (SEPTEMBER 1987), BY WHICH TIME THE TREND OF BLENDING UNDER THE REDESIGNED PROJECT SHOULD ALLOW FOR A CALCULATION, BASED ON EMPIRICAL EVIDENCE, OF HOW MUCH TIME WOULD BE NECESSARY TO USE THE ENTIRE USDOLS12.0 MILLION, AND A JUDGEMENT AS TO HOW MUCH TIME TO ALLOW. IF AFTER THIS YEAR OF ADDITIONAL EXPERIENCE THE RECENT UPSURGE IN IPIP ACTIVITY IS NOT SUSTAINED, PROJECT FUNDS SHOULD BE DEOBLIGATED.

5. COMMENTS KEYED TO TEXT:

- PAGE 1: THE PROJECT PURPOSE IS STATED IN THE PP AND ANNEX I OF THE LOAN AGREEMENT. WE SUGGEST THE PROJECT PURPOSE GIVEN ON THE PP FACESHEET BE USED: QUOTE TO PROVIDE PHYSICAL INFRASTRUCTURE REQUIRED FOR EXPANDED PRIVATE PRODUCTION WHICH WILL RESULT IN INCREASED EMPLOYMENT UNQUOTE. IT IS NOT LIMITED TO

PROVIDING FACTORY SPACE, AND THERE IS NO REFERENCE TO THE CEI.

EXHIBIT 4  
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6. PAGE 2: AS OF MARCH 31, 1986 ONLY USDOLS400,000 HAD BEEN DISBURSED TO THE ECCB; ADDITIONAL ACCRUED EXPENDITURES TO DATE TOTAL NEARLY USDOLS1.0 MILLION. DOCUMENTS COVERING USDOLS130,000 OF THIS HAVE BEEN RECEIVED BY THE ECCB.

7. PAGE 3. PARA ONE: PHYSICAL INFRASTRUCTURE HAS BEEN BUILT AND IS BEING BUILT UNDER IPIP. NEW JOBS AND NEW EXPORTS HAVE BEEN CREATED AND ARE BEING CREATED. PROJECT OBJECTIVES ARE BEING ACHIEVED; THE PACE, HOWEVER, HAS BEEN FAR BEHIND THAT ANTICIPATED. THAT IMPLEMENTATION HAS NOT ALL BUT COME TO A HALT IS EVIDENCED BY THE THREE SUBLOAN APPROVALS (USDOLS1.3 MILLION, 10 PERCENT OF THE LOAN) OVER THE PAST THREE MONTHS.

8. MISSION MONITORING WAS ADEQUATE; THE AUDITOR MAY FAIRLY OBSERVE THAT THE PROJECT MANAGER DID NOT DOCUMENT HIS ACTIONS ADEQUATELY, BUT IS ON TENUOUS GROUND IN QUESTIONING THE MISSION'S DECISION TO STAY

THE COURSE IN THE FACE OF SLOWER THAN PROJECTED IMPLEMENTATION.

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9. PARA THREE: IF LOCAL INVESTORS SPENDING THEIR OWN TIME AND MONEY PREPARING SUPPLEMENTARY PROPOSALS IS ACCEPTED AS PRIMA FACIE EVIDENCE OF DEMAND FOR IPIP FINANCING, WE SEE SUBSTANTIAL CURRENT DEMAND INCLUDING NOT ONLY THE TWO LARGE SUBPROJECTS WHICH MAY COMMIT TO \$2.0 MILLION OF LOAN FUNDS THIS WINTER AND MIGHT EVENTUALLY CALL FOR FINANCING OVER AND ABOVE IPIP, BUT ALSO A STREAM OF SMALL PROPOSALS SUGGESTING THAT INTEREST IS BEGINNING TO SPREAD THROUGH THE MIDDLE LEVEL OF LOCAL BUSINESS COMMUNITIES. THIS LATTER DEVELOPMENT PROMISES A FAVORABLE ENHANCEMENT OF THE LOCAL POLITICAL IMPACT OF IPIP, WHICH NOW IS BEGINNING TO BE VIEWED AS A PROJECT FOR WEST INDIANS (INSTEAD OF ANOTHER PROJECT FOR CONSULTANTS AND RICH FOREIGNERS). THIS SERENDIPITOUS TURN WAS NOT ENVISIONED IN THE ORIGINAL PROJECT DESIGN, WHICH INTENDED TO MINIMIZE THE NUMBER AND MAXIMIZE THE SIZE OF TRANSACTIONS IN THE INTEREST OF EFFICIENCY, AND ASSUMED FOREIGN OWNERSHIP OF MOST OF THE MANUFACTURING OPERATIONS USING IPIP SPACE, ASSURING A CONCENTRATION ON EXPORT PRODUCTION. THIS EVOLUTION, WHEREBY UNFOLDING EVENTS WITHIN THE PROJECT SUGGEST DESIGN CHANGE, UNDERLINES THE EFFECTIVENESS OF A MANAGEMENT STYLE ALLOWING SPONTANEITY IN THE PLAY OF EVENTS WORKING TOWARDS EFFECTIVE PROJECT IMPLEMENTATION, RATHER THAN IMPATIENTLY DEMANDING ADHERENCE TO A RIGID PLAN AND TIMETABLE.

10. THERE IS ALSO LIFE ON THE FOREIGN INVESTOR FRONT. ALTHOUGH MACRO-ECONOMIC INDICATORS FOR THE REGION ARE GENERALLY WORSE THAN WHEN IPIP BEGAN, SEVERAL FACTORS SPECIFICALLY AFFECTING IPIP'S ECONOMIC ENVIRONMENT ARE IMPROVING. LOCAL PRODUCERS AND INTRAREGIONAL EXPORTERS HAVE ADJUSTED TO THE MARKET RESTRICTIONS IN JAMAICA AND TRINIDAD AND ARE BEGINNING TO LOOK WITH INTEREST AT OPPORTUNITIES IN THE U.S. AND JOINT VENTURES WITH U.S. FIRMS. A LARGE DATA PROCESSING INVESTMENT HAS RECENTLY BEEN MADE IN MONTSERRAT, WHILE U.S. INVESTORS IN THIS INDUSTRY ARE IN DISCUSSIONS IN ANTIGUA AND ST. LUCIA. THE VERY LARGE INDUSTRIAL ESTATE PLANNED IN ST. VINCENT WILL HOUSE U.S. FIRMS IN DATA PROCESSING AND MEDICAL MANUFACTURING, WITH THE U.S. PARTNERS IN THE ESTATE BRINGING THEIR OWN OPERATIONS IN AS STARTERS. LAST MONTH ANOTHER WHITE HOUSE UNCORRELATED INVESTOR MISSION VISITED GRENADA, INCREASING THE PRESSURE THERE FOR CONSTRUCTION OF FACTORY SPACE. IN SUM, THERE ARE SIGNS OF INCREASING INTEREST ON THE PART OF FOREIGN AS WELL AS LOCAL INVESTORS; AND THE FILLIP OF WHITE HOUSE INTEREST IN LOCATING U.S. MANUFACTURERS IN GRENADA ADDS A NEW DIMENSION TO THE DESIRABILITY OF CONTINUING IPIP AND THE CONSTRUCTION OF THE 600,000 SQUARE FEET ORIGINALLY PLANNED.

11. WHILE ANY OBLIGATION AT THIS TIME SEEMS PRECIPITATE, THE SELECTION OF A SPECIFIC FIGURE SUGGESTS THAT THE AUDITOR MAY HAVE FALLEN INTO THE DEMAND-ESTIMATING TRAP THE MISSION FELL INTO TWO YEARS AGO. IN REACHING ITS 1984 DEMAND ESTIMATES THE MISSION CAREFULLY FOLLOWED THE CUSTOMARY AID PROCEDURE OF BRINGING IN EXPERT ADVISORS AND DRAWING ON THEIR RESEARCH AND RECOMMENDATIONS IN DESIGNING THE PROJECT. THE PP DEVELOPMENT PROCESS TOOK OVER A YEAR, AND WAS ASSISTED BY RECOGNIZED EXPERTS IN INVESTMENT PROMOTION AND IN THE BUSINESS OF SETTING UP AND RUNNING INDUSTRIAL PARKS. THE AUDITOR, HOWEVER, ON THE BASIS OF NINE WEEKS WORK, INCLUDING VISITS TO ONLY THREE OF THE SIX PARTICIPATING ISLANDS, RECOMMENDS THAT THE LOAN SIZE BE DOLS6.0 MILLION, A FIGURE CARRYING WITH IT AN IMPLIED DEMAND FOR 300,000 SQUARE FEET OF FACTORY SPACE AND NO MORE. THIS GIVES NO CONSIDERATION TO THE LONGER TERM PLANS OF THE INVESTORS LAYING DOWN THESE 300,000 SQUARE FEET, OR TO THE PLANS OF OTHER INVESTORS IN THE WINGS, ESPECIALLY THE NUMEROUS LOCAL INVESTORS WE NOW ARE BEGINNING TO SEE. IT WOULD BE SELF-DEFEATING FOR AID TO CUT OFF ASSISTANCE TO A PROJECT WHICH HAS RECENTLY TAKEN HOLD; WHICH IS CENTRAL TO THE NEEDS OF

THE REGION AND TO OUR PRIVATE SECTOR STRATEGY; AND WHICH WOULD THEN BE UNDERFUNDED, RATHER THAN SUFFERING FROM SLOW IMPLEMENTATION. WE DO NOT SEE A SUSTAINABLE RATIONALE FOR A REDUCTION OF THE LOAN BY US\$6.2 MILLION OR BY ANY OTHER FIGURE AT THIS TIME. IN THE 1984 INTERVIEWS OF BUSINESSMEN AND BANKERS LEADING TO OUR ORIGINAL DEMAND ESTIMATES THE RESPONDENTS ARE ASSUMED TO HAVE ANSWERED IN GOOD FAITH; BUT, AS NOW SEEMS CLEAR, THEIR REACTIONS AT THE TIME REFLECTED THEIR SITUATIONS AT THE TIME. SINCE THEN INTEREST RATES HAVE DROPPED, THEIR CASH-COST LENDABLE RESERVES HAVE RISEN, BUSINESS CONDITIONS HAVE WORSENERED, AND THE CLIMATE FOR IPIP IS NOT AS FAVORABLE AS IT WAS. NEVERTHELESS THERE HAVE BEEN SEVERAL SUBPROJECTS BROUGHT TO THE POINT OF FINANCING, AND BOTH THE MISSION AND THE ECCB HAVE BEEN RECENTLY REMUSED BY THE APPEARANCE OF NEW AND UNEXPECTED CANDIDATES FROM THE MIDDLE-LEVEL OF LOCAL BUSINESS COMMUNITIES. FOR THE FIRST TIME A PATTERN OF INVESTOR INTEREST AND BANKER RESPONSE IS DEVELOPING IN REALITY, RATHER THAN IN PROJECTION, AND IT MAY BE POSSIBLE WITHIN THE NEXT SIX TO TWELVE MONTHS TO ESTABLISH AN EMPIRICAL BASE UPON WHICH TO ESTIMATE THE DEMAND FOR IPIP THEREAFTER. NOW IS NOT THE TIME FOR SUCH A DECISION.

2. PAGE 3. PARA TWO: MISSION MANAGEMENT OF THIS PROJECT FEATURES PROMOTIONAL AND END-USE VISITS BY THE RDC/C PROJECT MANAGER AND HIS ECCB COUNTERPART, AND THE MAINTENANCE BY THEM OF AN INFORMAL NETWORK BETWEEN THE ECCB, RDC/C, THE COMMERCIAL BANK MANAGERS, LOCAL AND FOREIGN BUSINESSMEN INTERESTED IN COMPANIES AS OWNERS OR TENANTS, PDAP AND THE NATIONAL INVESTMENT PROMOTION OFFICES, FREE ZONE AUTHORITY SERVICES, AND CONSULTING ENGINEERS PARTNERSHIP. IT COULD BE DIFFICULT TO FIND A MORE COMPREHENSIVE SYSTEM OF INPUT AND FEEDBACK, OR A MANAGEMENT APPROACH BETTER SUITED TO BRINGING A NEW CONCEPT TO A GROUP OF SMALL, ISOLATED, TRADITION-BOUND, CONSERVATIVE BUSINESS COMMUNITIES. THROUGHOUT THIS TWO-YEAR PERIOD OF PROJECT INTRODUCTION AND SUPPLEMENTARY FALSE STARTS MISSION MANAGEMENT WAS KEPT FULLY INFORMED, AND ACCEPTED THE NEED FOR PATIENCE AND PERSEVERANCE DESPITE THE TIMETABLE LAID OUT IN THE PP. THERE IS ALWAYS ROOM FOR MORE CAREFUL MANAGEMENT AND BETTER CONTROL OF COMMODITIES; BUT THE MISSION'S PERFORMANCE IN THIS RESPECT WAS SUBSTANTIALLY BETTER THAN THE DOCUMENTATION INDICATES. A SITUATION, UNFORTUNATELY, THAT BY DEFINITION WE CANNOT DOCUMENT. FOR FY87 THE MISSION HAS ASSIGNED MORE STAFF TIME TO IPIP AS PART OF THE OVERALL ENLARGEMENT OF THE PRIVATE SECTOR DIVISION.

3. PAGE 3. PARA THREE: REPEATS EARLIER TEXT.

4. PAGE 4. PARA TWO: NOTES CORRECTLY THAT THIS PROJECT WILL TAKE LONGER THAN PLANNED. THE POTENTIAL DEMAND FIGURE SUBSTANTIALLY EXCEEDS 180,000 SQUARE

FEET, BUT AS IN ALL COMMERCIAL AND INDUSTRIAL REAL ESTATE THERE WILL BE UNUTILIZED SPACE FROM TIME TO TIME DESPITE THE LONG TERM TRENDS IN DEMAND AND CONSTRUCTION. THIS IS ILLUSTRATED IN ST. LUCIA AND ANTIGUA, LOCALES OF THE PHOTOGRAPHS IN EXHIBIT 1. IN ANTIGUA THE 20,000 SQUARE FEET PLANT SHOWN IS HALF OCCUPIED BY A GARMENT MANUFACTURER, WITH ANOTHER 2,500 FEET COMMITTED TO AN ELECTRONICS ASSEMBLY SHOP AWAITING GOVERNMENT CLEARANCES, AND THE REST FULLY USED BY CAGE ENTERPRISES (ANTIGUA'S LARGEST CONSTRUCTION CONTRACTOR, OWNER OF THE SHELL) FOR A WORKSHOP AND STORAGE. THERE IS NO VACANT SPACE ON THE ISLAND, AND CAGE IS BUILDING ANOTHER 20,000 SQUARE FEET WITH CFSC FUNDS. IN ST. LUCIA IN VIEUX FORT (ALL GOVERNMENT SPACE) AFTER BUILDING 76,000 SQUARE FEET OVER THE PAST YEAR THERE ARE 60,000 SQUARE FEET UNOCCUPIED, OF WHICH MARSTEN MILLS HAD HALF; WHILE IN CASTRIES (ALL PRIVATE SPACE) THERE IS DEMAND, NO SPACE, AND THREE IPIP SUBPROJECTS UNDER DEVELOPMENT. THE SITUATION IN ST. LUCIA EXEMPLIFIES THE DIFFICULTY THE PUBLIC SECTOR HAS IN READING AND RESPONDING TO MARKETS, A KEY ELEMENT IN THE RATIONALE BEHIND IPIP.

15. PAGE 5. EXTENDS EARLIER TEXT.

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16. PAGE 6. PARA TWO-THREE: IN CONSIDERING THE GOVERNMENT SUBSIDIZED COMPETITION ISSUE FZAS CONSULTANTS REPORTED THAT IN THEIR EXPERIENCE ELSEWHERE BUSINESSMEN WERE WILLING TO PAY A PREMIUM FOR BETTER OPERATED SPACE, AND THAT THE COST OF RENTING SPACE WAS A MINOR CONSIDERATION IN THEIR OVERALL DECISION WHETHER TO LOCATE IN A GIVEN PLACE. HERE THIS SUBSIDIZED COMPETITION WAS NOT EXPECTED TO BE FATAL TO PRIVATE VENTURES, AND HAS BEEN SHOWN NOT TO BE. PARA THREE OMITTS THE QUALIFIER IN THE ACKNOWLEDGEMENT ON PAGE 3 OF THE PP THAT QUOTE PRIVATE INDUSTRIAL ESTATE FEASIBILITY IN THE REGION IS DEPENDENT UPON SEVERAL FACTORS, INCLUDING A REDUCTION OF SUBSIDIZATION... UNQUOTE, AND THEREBY GIVES MORE WEIGHT TO THE SUBSIDY PROBLEM THAN OUR PP OR SUBSEQUENT EVENTS JUSTIFY.

17. PAGE 6. PARA FOUR: IPIP SUBLOANS ARE FOR TEN YEARS, LONG-TERM IN THIS PART OF THE WORLD.

18. PAGE 7. PARA TWO: THE PP IS INCONSISTENT ON THE QUESTION OF SUBLOAN SECURITY, STATING BOTH THAT IT IS EXPECTED THAT THE COMPLETED FACTORY WILL SERVE AS ADEQUATE COLLATERAL, AND THAT ALL SUBLOANS WILL BE SECURED TO THE BANKS' SATISFACTION. THE LOAN AGREEMENT IS CLEAR, HOWEVER: PAGE 3 OF ANNEX 1 STATES QUOTE SUBLOANS WILL BE SECURED TO THE SATISFACTION OF THE COMMERCIAL BANKS... UNQUOTE. EQUITY IS THE INVESTORS INVESTMENT (USUALLY CASH AND LAND) IN THE SUBPROJECT; COLLATERAL IS WHATEVER THE BANK TAKES A LIEN ON TO SECURE ITS LOAN. OUR EXPECTATION WAS THAT BANKS WOULD DEMAND ONLY 20 PERCENT EQUITY, AND THAT THE COMPLETED SHELLS WOULD SATISFY THEIR REQUIREMENT FOR COLLATERAL. THE FIRST IPIP SUBLOAN, MADE BY THE BARCLAYS BRANCH IN ANTIGUA, FEATURED A 40 PERCENT EQUITY CONTRIBUTION (ALL IN LAND) PLUS A COLLATERAL COVER ESTIMATED AT SEVERAL TIMES THE FACE VALUE OF THE CREDIT. THE NEXT TWO SUBLOANS IN ANTIGUA, MADE BY THE INDIGENOUS ANTIGUA COMMERCIAL BANK, CALL FOR 30 PERCENT EQUITY (HALF IN CASH) AND ONLY THE COMPLETED BUILDING AS COLLATERAL. THESE LATTER TERMS ARE CLOSE TO OUR EXPECTATIONS; AND ARE EXCEPTIONALLY LIBERAL IN THIS REGION. IN OUR REDESIGNED PROJECT WE HOPE TO SEE OTHER BANKS FOLLOW THIS EXAMPLE.

19. PAGE 8. PARA TWO. THERE IS NO INTERNAL RDO/C MEMORANDUM DATED FEBRUARY 21, 1986. WE SURMISE THE UNITOP REVIEWED THE PROJECT MANAGER'S WORKING FILE, WHICH CONTAINS AMONG OTHER JOTTINGS AN UNTITLED, UNADDRESSED, UNSIGNED, AND UNDISTRIBUTED NOTATION (CORRECTLY QUOTED) AS TO IPIP'S PROSPECTS THROUGH THE 987 FACD. THE SAME FOLDER ALSO HOLDS COPIES OF SEVERAL OF THE QUICK, INFORMAL NOTES ON IMPLEMENTATION MATTERS THE PROJECT MANAGER DID DISTRIBUTE, BUT WHICH ESCAPED ATTENTION.

20. PAGE 9. PARA TWO: THE ENGINEERING CONSULTANT WAS UNABLE TO MONITOR THE FIRST CONSTRUCTION BECAUSE THE INVESTOR, OPERATING ON BRIDGE FINANCING IN ANTICIPATION OF AN IPIP CREDIT, HAD HIS CONSTRUCTION LARGELY COMPLETED BEFORE THE MISSION COULD CONTRACT THE ENGINEERING CONSULTANT IN COMPLIANCE WITH AID REGULATIONS. THE MISSION RECOGNIZED THE IMPORTANCE OF GETTING THE FIRST SUBPROJECT UNDERWAY, A CRUCIAL PART OF THE EFFORT TO GAIN ACCEPTANCE FOR IPIP IN THE REGION, AND USED ITS OWN ENGINEERING STAFF AND THE ECCB PROJECT ADVISOR IN LIEU OF THE CONSULTANT ON A ONE-TIME BASIS. WHEN THE CONSULTANT ARRIVED HE WAS NOT ALLOWED TO DIG UNDERNEATH THE COMPLETED BUILDING; HENCE HIS CAUTIOUS MESSAGE REGARDING THE INFRASTRUCTURE.

21. PAGE 10. THIS PAGE CORRECTLY DESCRIBES THE CONFLICT BETWEEN THE IPIP PIPELINE AND A 1987 PACD. THE FINAL REPORT MIGHT CONSIDER ARGUMENTS FOR AN EXTENSION OF THE PACD AS WELL AS THOSE FOR DEOBLIGATION.

22. PAGE 12. EXHIBIT 1. THE TOP PHOTO SHOULD BE TITLED: PUBLIC SPACE - UNOCCUPIED. THE BOTTOM PHOTO SHOULD BE TITLED: IPIP SPACE . JCCUFID. EX  
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23. COMMENTS ON RECOMMENDATIONS: DESPITE THE INFORMATION OFFERED DURING YOUR JULY 31 EXIT INTERVIEW AND OUR FOLLOW-UP MEMO OF AUGUST 6 THERE HAVE BEEN ONLY MINOR EDITORIAL CHANGES IN THE DRAFT RECOMMENDATIONS AS SET OUT IN THE RAFS. WE REALIZE THAT OUR COMMENTS AND INTERPRETATIONS OF COURSE ARE NOT BINDING ON YOU, BUT WE RESPECTFULLY AGAIN OFFER AN OPINION WE HOLD STRONGLY: PUBLIC SPACE RENTAL RATES SHOULD BE A MATTER OF POLICY DIALOGUE AND PRESSURE, BUT RENT INCREASES WILL COME SLOWLY, AND OBTAINING SUCH ASSURANCES CANNOT BE EXPECTED WITHIN THE TIMEFRAME OF AN AUDIT RECOMMENDATION. RECOMMENDATION F-III SHOULD BE RECAST TO REFLECT THIS, OR DELETED.

24. THE STATUS OF OUR RESPONSE TO THE RECOMMENDATIONS IN THEIR PRESENT FORMULATION IS AS FOLLOWS: REC (A): AUTHORITY TO DEOB/REOB IS VESTED IN LAC. THE MISSION HAS DEOB AUTHORITY, BUT DOES NOT HAVE A SOUND RATIONALE FOR SIMPLY DEOBLIGATING FUNDS AT THIS TIME. WE PROPOSE TO DEAL WITH THE NEXT RECOMMENDATION FIRST, AND THEN RETURN TO THE DEOBLIGATION ISSUE. REC (F): THE MISSION IS IN NEGOTIATIONS WITH THE ECCF AND IS CONSULTING WITH COMMERCIAL BANKS AND PROSPECTIVE INVESTORS TO COMPOSE A REDESIGN WHICH WILL: ENHANCE THE ATTRACTIVENESS OF IPIP TO COMMERCIAL BANKS AND PRIVATE INVESTORS; ACCELERATE THE PACE OF SUBLENDING AND CONSTRUCTION; AND GENERATE EMPIRICAL DATA FOR A DECISION AS TO THE ULTIMATE TIMESPAN AND LOAN SIZE FOR THIS PROJECT. THE REDESIGN EXERCISE AND LOAN AMENDMENT SHOULD BE COMPLETED THIS CY. THE DEOB/RECF (OR SIMPLE DEOB) DECISION SHOULD BE MADE BY SEPTEMBER 1987. REC (C): THIS RECOMMENDATION WOULD REPEAT THE GUIDANCE SUPPLIED IN OUR HANDBOOKS. OUR STAFF IS AWARE OF THIS GUIDANCE. WE SEE NO VALUE IN GRATUITOUS MISSION ORDERS. OUR PROJECT MANAGER WAS ON TOP OF THE PROJECT AT ALL TIMES, AND THROUGH ORAL BRIEFINGS AND QUICK INFORMAL NOTES HE KEPT MISSION MANAGEMENT ADVISED. THE MISSION ACCEPTED AND CONTINUES TO ACCEPT HIS APPROACH OF ALLOWING TIME FOR THE IPIP PROCESS TO WORK. THERE WAS NO NEED TO OCCUPY TYPISTS AND FILES WITH MEMOS REPEATING OUR INTENTION TO DO WHAT WE HAD PROPOSED IN THE PF TO DO, AND WERE IN FACT DOING: CARRYING OUT IPIP AS DESIGNED. AGAIN WE SUGGEST THIS RECOMMENDATION BE DROPPED.

25. RESTATEMENT OF RECOMMENDATIONS: WE SUGGEST THERE BE TWO RECOMMENDATIONS, WITH THE FIRST TO BE CLEARED BY THE END OF THIS CY, AND THE SECOND BY THE END OF FY 87. RECOMMENDATION NO. 1: THE MISSION SHOULD PREPARE FOR AID/W APPROVAL A PROJECT AMENDMENT AUTHORIZING CHANGES IN PROJECT DESIGN TO BETTER MEET THE PROJECT GOAL AND PURPOSE, TO IMPROVE THE PACE OF

PROJECT IMPLEMENTATION, AND TO ESTABLISH WITHIN ONE YEAR A DATA BASE ADEQUATE TO SUPPORT A DECISION AS TO THE PROJECT'S ULTIMATE TERM AND SIZE. RECOMMENDATION NO. 2: BY SEPTEMBER 30, 1987 THE MISSION SHOULD REPROGRAM OR RETURN TO THE U.S. TREASURY ALL LOAN FUNDS WHICH WILL NOT BE USED BY A PACD TO BE NO LATER THAN SEPTEMBER 30, 1989.

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26. GENERAL OBSERVATIONS. AT THE REQUEST OF MR. FIELDS WE APPEND A COMMENT INTENDED TO BE HELPFUL IN FUTURE AUDITS OF PRIVATE SECTOR PROJECTS. TWO OF THE DOCUMENTS ON WHICH THE AUDITOR IS OBLIGED TO RELY DESERVE LESS CREDENCE: THE PROJECT PAPER AND DEMAND STUDIES.

27. THE PROJECT PAPER. PERHAPS THE MAJOR PROBLEM CONCERNING THE AUDITOR IN THIS ASSIGNMENT WAS THE PACE AND EXTENT OF CHANGE IN THE PROJECT SETTING, ASSUMPTIONS, AND METHODS DURING THE TWO YEARS SINCE ITS AUTHORIZATION. IN THE DEVELOPMENT OF PUBLIC SECTOR INFRASTRUCTURE PROJECTS AID ASSUMES THAT TRIED AND TRUE CONSTRUCTION AND FINANCING METHODS WILL WORK AGAIN, AND THAT ALL THE PLAYERS HAVE BEEN IDENTIFIED AND WILL CARRY OUT THEIR AGREED ROLES. THE PP

DESCRIBES OR PREDICTS THE PLAYERS, THEIR METHODS, THE UNDERLYING ASSUMPTIONS (POLITICAL, SOCIAL, TECHNICAL, ETC.) AND THE ESTIMATED COSTS AND BENEFITS OF THE PROJECT. THE ENVIRONMENT CAN BE CONTROLLED. THE PP GIVES AN AUDITOR A FAIRLY CLEAR PICTURE OF WHAT WAS TO HAPPEN AND HOW TO APPRAISE PROJECT EXECUTION AND RESULTS. IT GENERALLY HOLDS UP THROUGHOUT THE IMPLEMENTATION PERIOD. PRIVATE SECTOR PROJECTS, HOWEVER, OPERATE IN CHANGING ENVIRONMENTS AND RESPOND RAPIDLY TO THEM, SO THAT BY THE TIME OF THE AUDIT MUCH OF THE INITIAL PICTURE HAS CHANGED, UNFORSEEN EVENTS HAVE ENTERED, AND AN AUDITOR WORKING FROM THE PP HAS BEEN GIVEN A FIXED-PLACE GUN AND A MOVING TARGET. THE PP PROCESS DOES NOT ACCEPT THE FLEXIBILITY AND UNPREDICTABILITY WHICH PERMEATE PRIVATE SECTOR PROJECTS. WITHOUT AN ACCURATE UNDERSTANDING OF A PROJECT'S CURRENT SITUATION AND PROSPECTS, ANY APPRAISAL OF ITS IMPLEMENTATION AND EFFECTS WILL BE HAMPERED BY OBSOLETE CRITERIA.

28. DEMAND STUDIES. THE DECISIONS AND ACTIONS OF BUSINESSMEN AND BANKERS ARE PRAGMATIC, AND REFLECT CHANGING CONDITIONS. ONE LESSON FROM OUR 1983-84 ARRAY OF RESEARCH, INTERVIEWS, STUDIES, AND SURVEYS OF DEMAND FOR IPIP IS THAT THE PREDICTIONS BY BUSINESSMEN AND BANKERS OF THEIR OWN BEHAVIOUR WERE SIMPLY ANALOGS TO THEIR EXPECTATIONS OF INTERNATIONAL CONDITIONS, INTEREST RATES, CASH POSITIONS, AND ALL THE OTHER FACTORS MAKING UP EACH INDIVIDUAL'S BUSINESS ENVIRONMENT. IT IS HARD TO FORECAST THESE THINGS. THE PERFORMANCE OF THE HORDE OF CONFLICTING ECONOMISTS FOUND IN THE GOVERNMENT AND WALL STREET ILLUSTRATES THE DIFFICULTY OF PREDICTION; A BASIC PRINCIPLE AMONG PRACTITIONERS IS -- IF YOU ARE GOING TO MAKE PREDICTIONS, MAKE A LOT OF THEM. THE AID PROJECT DEVELOPMENT PROCESS REQUIRES PREDICTIONS, SUCH AS DEMAND PROJECTIONS, BUT ALLOWS ONLY ONE PER PROJECT. SECTION 611 AND THE DAEC DO NOT ACCOMMODATE UNCERTAINTY, AND LATER WE ARE DISAPPOINTED BY THE TRUTH. CARPENTER  
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