PD-AAX-891

A.I.D. EVALUATION SUMMARY PART I

(BEFORE FILLING OUT THIS FORM, READ THE ATTACHED INSTRUCTIONS)

IDENTIFICATION DATA

A. REPORTING A.I.D. UNIT: RDO/C (Mission or AID/W Office) (ES# 538-88-04)

B. WAS EVALUATION SCHEDULED IN CURRENT FY ANNUAL EVALUATION PLAN? yes ☐ slipped ☐ ad hoc ☐

Eval. Plan Submission Date: FY 88 Q 1st

C. EVALUATION TIMING SEE D. Interim ☒ final ☒ ex post ☐ other ☐

D. ACTIVITY OR ACTIVITIES EVALUATED (List the following information for project(s) or program(s) evaluated; if not applicable, list title and date of the evaluation report)

Private Sector Program-Financial Cluster

Project #	Project/Program Title (or title & date of evaluation report)	First PROAG or equivalent (FY)	Most recent PACD (mo/yr)	Planned LOP Cost ('000)	Amount Obligated to Date ('000)
538-0084	Caribbean Financial Services Corporation-Interim	(83)	12/89	400(G) 17,335(L)	200(G) 14,835(L)
538-0088	Infrastructure for Productive Investment Project -Final	(84)	9/87	6,000	6,000
538-0018	Employment Investment Promotion II - Ex post	(79)	12/85	8,400	8,400
538-0060	Caribbean Project Development Facility - Final	(82)	TCD 10/31/87	2,000	2,000

ACTIONS

E. ACTION DECISIONS APPROVED BY MISSION OR AID/W OFFICE DIRECTOR — Action(s) Required	Name of officer responsible for Action	Date Action to be Completed
Actions coming out of the evaluation related to CFSC.	C. Reece/ Mission Management	
1. RDO/C and CFSC should jointly review project goals and objectives and assess the amounts and timing of future requirements for AID funds.		4/30/88
2. Based on an assessment of requirements, RDO/C to decide whether or not to deobligate funds.		4/30/88
3. RDO/C and CFSC to develop guidelines for CFSC reporting on indicators of project impact which will improve the accuracy of evaluation.		3/31/88

(Attach extra sheet if necessary)

APPROVALS

F. DATE OF MISSION OR AID/W OFFICE REVIEW OF EVALUATION: mo 9 day 16 yr 87

G. APPROVALS OF EVALUATION SUMMARY AND ACTION DECISIONS:

	Project/Program Officer	Representative of Borrower/Grantee	Evaluation Officer	Mission or AID/W Office Director
Signature / Typed Name	Peter Medford	N/A	Darwin Clarke	James Holtaway
Date:	1/21/88		1/1.../	1/25/88

Charles Patalive Date 1/22/88 — John Wooten (In Draft) — David Mutchler Date ____ — Alfred Bisset Date ____

H. EVALUATION ABSTRACT (do not exceed the space provided)

These four projects: Caribbean Financial Services Corporation (CFSC), Infrastructure for Productive Investment (IPIP), Employment Investment Promotion II (EIP #2) and Caribbean Project Development Facility (CPDF) were evaluated together as major components were concerned with the delivery of credit or the securing of credit. They provide a picture of USAID experience with credit support to the private sector since 1979. This evaluation was part of a larger Private Sector Program Evaluation which has been on-going over the past 15 months. The evaluation was impact in nature and reached conclusions about alternative project approaches to the attainment of similar outputs.

The Caribbean Financial Services Corporation (CFSC), a private sector financier established under this project, received loan funds from RDO/C and succeeded in building a $6 million portfolio of term loans to 32 medium-scale business ventures. Plans to discount commercial bank loans have not materialized, due to lack of demand. The demand for both direct loans and discounts was dampened as a result of the foreign exchange risk.

The Infrastructure for Productive Investment Project (IPIP), which received loan funds from RDO/C for investment in construction of industrial estates and factory shells, has been largely unsuccessful. Funds were to be channelled through commercial banks to individual investors via the Eastern Caribbean Central Bank. The industrial estate program suffered from an almost total lack of demand. However, demand for funds for the construction of owner-occupied factory shells was stronger than anticipated.

The Employment Investment Promotion II project (EIP II) used the Caribbean Development Bank and national Development Finance Corporations to finance factory shells and industrial credits for small and medium scale firms. The purpose was to stimulate investment by such firms and thereby to increase production and employment in the region. The project funded about 300,000 sq.ft. of space in the OECS, and generated employment for over 2000 people. The project also provided $850,000 in industrial credits in the OECS. Such funds are often the only source of financing for small-scale firms. Many of the subloans financed by EIP II are deeply in arrears.

The Caribbean Project Development Facility (CPDF), which received USAID grant funds, has been largely successful in its efforts to increase the supply of bankable projects in the Caribbean, although at relatively high unit costs. CPDF has written 26 project proposals for the OECS and Barbados, of which nine have been funded. In addition the CPDF provided a variety of services to a large number of medium-scale entrepreneurs including assistance in the preparation of business proposals and in negotiations of financing terms.

A major conclusion of the evaluators is that a portfolio of private sector projects should include projects which are predominantly growth oriented as well as those which are predominantly equity oriented. None of these projects has achieved both objectives simultaneously.

I. EVALUATION COSTS

1. Evaluation Team

Name	Affiliation	Contract Number OR TDY Person Days	Contract Cost OR TDY Cost (US$)	Source of Funds
H. Lerner	LBII	538-0119-C-00-6027	$90,223	Project
J. Coolidge	LBII			
M. Thomson	AGI			
R. Wilkinson	AGI			

2. Mission/Office Professional Staff Person-Days (estimate) 3

3. Borrower/Grantee Professional Staff Person-Days (estimate) 2

A.I.D. EVALUATION SUMMARY PART II

J. SUMMARY OF EVALUATION FINDINGS, CONCLUSIONS AND RECOMMENDATIONS (Try not to exceed the 3 pages provided)
Address the following items:

- Purpose of activity(ies) evaluated
- Purpose of evaluation and Methodology used
- Findings and conclusions (relate to questions)
- Principal recommendations
- Lessons learned

Mission or Office: RDO/C **Date this summary prepared:** 1/21/88

Title and Date of Full Evaluation Report: Evaluation of the RDO/C Private Sector Financial Cluster Projects.

This evaluation was part of a broader evaluation of the Private Sector Program being undertaken by the Mission to determine achievement towards program objectives. The focus of the evaluation was economic impact, measured in terms of investment, employment, sales and exports. The evaluators reviewed relevant project documents, and interviewed RDO/C project officers, implementing agency project managers and other personnel, and the principals of business assisted by the four projects.

CARIBBEAN FINANCIAL SERVICES CORPORATION (CFSC)

The CFSC project was designed to establish a privately owned, for profit, development financial institution to provide term lending and other financial services to private sector enterprises in the English-speaking Caribbean. The services were expected to contribute to new investment, and increased employment, income and foreign exchange earnings in the region.

FINDINGS AND CONCLUSIONS

The evaluators found that CFSC has been successfully established, with private equity in excess of $3 million and with more than three years operating experience. It is a responsive, efficient, moderately profitable, long-term lender to privately-owned manufacturing, service and tourism projects. It typically lends with greater reliance on cash flow and less requirement for collateral than commercial banks.

The projected demand for discount of commercial bank loans did not materialize, and because these discounts were to account for more than half of all lending, total lending targets have not been achieved. The lack of demand was due to increased market liquidity and commercial bank/borrower unwillingness to assume foreign exchange risk. Nevertheless, targets for direct lending have been consistently exceeded. The expected impact on employment, income, and foreign exchange earnings in the region has been generally equal to or better than that forseen in the project paper per dollar lent.

The evaluators indicated that the principal reason for CFSC's success is that RDO/C succeeded well in involving the private sector in the project design, thereby assuring their subsequent commitment to achieving results. The failure to achieve planned loan volume is primarily due to a flawed initial assessment in the market study of demand for discounting commercial bank loans.

INFRASTRUCTURE FOR PRODUCTIVE INVESTMENT PROJECT (IPIP)

The purpose of IPIP was to provide the physical infrastructure required for expanded private production which would result in increased employment. To accomplish this, a $12 million loan was channeled through the Eastern Caribbean Central Bank (ECCB), to fully fund commercial bank subloans to private developers for the construction of industrial floor space and supporting infrastructure. The project was intended to enhance significantly the attractiveness of the Eastern Caribbean as an investment host.

FINDINGS AND CONCLUSIONS

The evaluators have stated that there was little or no demand for funds from foreign investors to develop private industrial estates in the OECS. However, demand from local investors for funds to construct owner occupied factory shells was greater than anticipated. Unfortunately only five out of fifty enquiries reached the funding stage because most of the proposals were not bankable. About 74,000 sq.ft. of factory space have been constructed creating 150 jobs.

SUMMARY

The evaluators concluded the following:

o IPIP has been a failure and RDO/C's decision to close out the project was sound.

o The project was implemented at a time of excess liquidity in the commercial banking system in the OECS states and, as a result, the commercial banks did not show any enthusiasm for lending IPIP funds. In addition, the local commercial banks were not interested in taking on the foreign exchange risk associated with the US dollar IPIP loans.

o Even if demand for factory shells had matched expectations, there is little evidence to suggest that private sector development of industrial estates would be the appropriate solution to the OECS investment problem. It is very unlikely that foreign investors would be willing to come into a region of unproven industrial experience and construct factory shells in anticipation of future demand. It is equally unlikely that these investors would be able to charge the rents that would make the project feasible given the subsidized rental rate policy adopted by the public sector in the region.

EMPLOYMENT INVESTMENT PROMOTION II (EIP)

EIP II was intended to stimulate investment in small and medium business necessary to increase production and employment in the region. The project was carried out by the Caribbean Development Bank and various national Development Finance Corporations (DFCs) and Industrial Development Corporation (IDCs). There were two major components to the program: industrial credits and factory shells.

An earlier evaluation in 1984 focussed on achievments in all the English speaking Caribbean Islands besides Grenada and Montserrat. This evaluation concentrated on these two territories.

FINDINGS AND CONCLUSIONS

A. Industrial Credits

The evaluators received the following responses:

o Most entrepreneurs described the industrial credit as important or critical to the startup or expansion of their businesses, and said that their chances of obtaining financing on reasonable terms from other sources were limited.

o DFC personnel reported that arrears in industry were higher than for other sectors. They explained that the manufacturing sector in the Eastern Caribbean was severely injured by the loss of regional markets since 1983.

o DFC personnel also reported that arrears for the DFCs were probably higher than for other financial institutions because of their status as government-owned institutions. They were thought of as more lenient than private, commercial lending institutions and were, therefore, put low on the borrowers' list of payment priorities.

o They concluded that the project met a need for long term credit by small and medium-scale entrepreneurs in the OECS and made a contribution towards business growth and employment but little contribution to export earnings.

B. Factory Shells

The evaluators found that over 300,000 sq. ft. of factory space was constructed in five Caribbean territories with the assistance of USAID funds and the program assisted in providing employment for 2000 persons in the region. General findings indicate that the shells are well maintained and as a rule the arrears situation is well under control. The majority of the tenants interviewed cited the availability of these factory shells as a major factor in their decision to locate in the country in which they were operating.

CARIBBEAN PROJECT DEVELOPMENT FACILITY (CPDF

The purpose of CPDF was to increase the supply of investment projects worthy of consideration for financing by prospective lenders and investors. The project was initiated by the United Nations Development Program (UNDP), and executed by the International Finance Corporation (IFC). USAID's funding has represented about 30% of CPDF's budget. A number of other donor agencies provided financial support to the facility.

SUMMARY (continued)

FINDINGS AND CONCLUSIONS

o The evaluators concluded that overall CPDF performance has measured up to the targets set, even though in the early years achievements were shy of the mark. About 66 proposals have been prepared, of which about 30 have secured funding.

The major findings were:

o In the OECS and Barbados, CPDF has completed 26 project proposals, of which nine received funding totalling $6.2 million. Over half of the projects were export oriented and generated employment of about 179 jobs.

o In addition to project proposals, CPDF has assisted entrepreneurs by arranging technical assistance and funding for pre-feasibility and feasibility studies.

o CPDF's direct costs for proposal preparation compares favorably with rough estimates of market valuations of the benefits of CPDF proposals to project sponsors.

o Personnel from financing institutions reported that they found CPDF proposals of consistently high quality (although in some instances lacking in a thorough appreciation of Caribbean business conditions), and that the CPDF proposals permitted them seriously to consider prospects which might have been disregarded before.

OVERALL CLUSTER CONCLUSIONS

The evaluators concluded that:

o Provision of long term credit for direct lending to industrial, commercial, and service establishments has found a ready market in RDO/C's target area, and has led to significant development impacts. Availability of credit of this kind was found to be a necessary but not a sufficient condition for new investment and economic development.

o In some cases substantial resources were obligated to projects that were poorly designed or based upon unwarranted assumptions.

o The likelihood that donor-funded private sector projects will be successful can be substantially increased when local business lenders are involved in the design and execution of these projects.

o Loans denominated in US dollars can be detrimental to projects which do not earn foreign exchange directly or for which prices cannot be effectively adjusted to service foreign debt.

o It is preferable to contribute resources to development projects in such a way as to increase the mobilization of domestic resources and not contribute to continued dependence upon donor or international external funding.

o Best project results are achieved by precisely targeting project objectives, limiting these if necessary to insure their coherence and consistency with those of the implementing agency. To achieve overall program balance, a portfolio of projects can be designed, each focused on different developmental goals.

o Both project design and evaluation would benefit from better impact indicators and measures of achievement.

RECOMMENDATIONS FOR RDO/C

o Design credit programs so that funding is in the appropriate currency, separating balance of payment from project development objectives. Include mobilization of domestic resources as a primary objective, not only to maximize leverage of USAID funds but to encourage self reliance. If foreign exchange risk must be incurred, insure that it is borne at the level where it can best and most appropriately be met, often the national government or central bank.

o Achieve diverse program goals through portfolio mix rather than complicate project implementation with multiple objectives.

o Involve implementing agencies in project design to the maximum extent possible to insure effectiveness and commitment.

LESSONS LEARNED

The major lessons noted are:

o The design of private sector projects involving the disbursement of USAID loan funds should be based on market surveys/feasibility studies which are up to private sector standards for investment decision-making.

o Private sector institutions have been able to play a positive role in some development efforts but have proven ineffective or inappropriate agents in other cases.

SUMMARY (continued)

V

ATTACHMENTS

K. ATTACHMENTS (List attachments submitted with this Evaluation Summary; always attach copy of full evaluation report, even if one was submitted earlier)

Attachment: Evaluation of the RDO/C Private Sector Financial Cluster Projects, Prepared by Louis Berger International, Inc.(LBII), January 1988

MISSION COMMENTS ON FULL REPORT

L. COMMENTS BY MISSION, AID/W OFFICE AND BORROWER/GRANTEE

The evaluation is instructive to the Mission in that it highlights a need for timely decision making in response to observed failings in implementation. These may be due to design flaws resulting from inappropriate or inadequate analyses or over reliance on survey data. The evaluations further revealed the need for flexibility in the design and implementation of private sector projects to accomodate private sector reaction to a changing economic environment.

The evaluations also should prove useful to the Mission for future project development. They identified issues such as the growth/equity dichotomy and the appropriateness of private/public sector delivery mechanisms as matters which should be resolved at the design stage.

The evaluators used a creative approach to assess the cost effectiveness of the primarily technical assistance CPDF project. They identified the services provided by CPDF which are all commercially procurable and using proxy costings, CPDF showed that costs compared very favourably.

The executing agencies generally found the evaluations findings to be fair and accepted the recommendations made.

XD-AAX-591-A
ISN 53625

Evaluation of the

RDO/C Private Sector Financial Cluster Projects:

CARIBBEAN FINANCIAL SERVICES CORPORATION
(USAID Project No. 538-0084)

INFRASTRUCTURE FOR PRODUCTIVE INVESTMENT PROJECT
(USAID Project No. 538-0083)

EMPLOYMENT INVESTMENT PROMOTION II
(USAID Project No. 538-W-012/538-0018)

CARIBBEAN PROJECT DEVELOPMENT FACILITY
(USAID Project No. 538-0060)

FINAL REPORT

Prepared for
USAID, RDO/C

by
Louis Berger International, Inc.
January 1988

LOUIS BERGER INTERNATIONAL, INC.

1819 H Street, NW • Suite 900 • Washington, D.C. 2000
Telephone: (202) 331-7775
Telex: 292079 LBI UR

January 12, 1988

Mr. David Mutchler
Chief, Program Division
USAID Regional Development Office/Caribbean
P.O. Box 302
Bridgetown, Barbados

RE: Evaluation of "Financial Cluster Projects":
Caribbean Financial Services Corporation (538-0084)
Infrastructure for Productive Investment (538-0088)
Employment Investment Promotion II (538-W-012/538-0018)
Caribbean Project Development Facility (538-0060)

Dear Mr. Mutchler

Enclosed herewith please find five copies of our final report for the above-referenced project evaluations. Note that we have included a copy of the response of the Eastern Caribbean Central Bank to the evaluation of IPIP (538-0088) as Appendix H to the report. No comments were received from CFSC (538-84), from the CDB (538-W-012/538-0018) or from CPDF (538-0060).

Thank you very much for your assistance in completing this task.

Sincerely,

Jacqueline G. Coolidge
Evaluation Coordinator

FINANCIAL CLUSTER EVALUATION

LIST OF APPENDICES

LIST OF TERMS AND ABBREVIATIONS

ABDB	Antigua and Barbuda Development Bank
ADL	Arthur D. Little, Inc.
AIC	Agricultural and Industrial Credit
AID	United States Agency for International Development
AIDBank	Agricultural and Industrial Development Bank (Dominica)
BDB	Barbados Development Bank
BNB	Barbados National Bank
CDB	Caribbean Development Bank
CDC	Commonwealth Development Corporation
CFC	Caribbean Food Corporation
CFSC	Caribbean Financial Services Corporation
CIDA	Canadian International Development Agency
CPDF	Caribbean Project Development Facility
DEG	Deutsche finanzierungsgeselschaft fur Beteiligungen in Entwicklungslandern, GMBH
DFC	Development Finance Corporations
DEVCO	Development Corporation (St. Vincent)
DFMC	Development Finance and Marketing Corporation (Montserrat)
ECCB	Eastern Caribbean Central Bank
EIP II	Employment Investment Promotion II
GDB	Grenada Development Bank
HIAMP	High Impact Agricultural Marketing and Production
IBRD	International Bank for Reconstruction and Development (the World Bank)
IDS	Industrial Development Specialists
IECS	International Executive Service Corps
IFC	International Finance Corporation
IMF	International Monetary Fund
IPIP	Infrastructure for Productive Investment Project
IRR	Internal Rate of Return
LBII	Louis Berger International, Inc.
LogFrame	Logical Framework
NPV	Net Present Value
ODA	Overseas Development Association (UK)
OECS	Organization of Eastern Caribbean States
PP	Project Paper
RDO/C	Regional Development Office/Caribbean (USAID Mission)
SIC	Small Industry Credit
UNDP	United Nations Development Program
USAID	United States Agency for International Development
VOCA	Volunteers in Overseas Cooperative Assistance

All currencies are expressed in US dollars unless otherwise noted. Approximate exchange rates used:

EC $2.70 = US$1.00
BDS$2.00 = US$1.00

ABSTRACT

The **Caribbean Financial Services Corporation** (CFSC), which has received loan funds from RDO/C for lending to the private sector in the English speaking Caribbean, has succeeded in building up a $6 million portfolio of term loans to 32 medium-scale business ventures, many of whom probably could not have arranged such financing elsewhere. CFSC began three years ago very cautiously, but has since increased its pace of lending by providing loans to a number of business start-ups. Plans to discount commercial bank loans have not materialized, due to lack of demand. Since lending takes place in US dollars, currency devaluation risks have dampened potential demand for both direct loans and discounts. On balance, the evaluation team judged the CFSC project to be quite successful. A controversial IG audit was highly critical of CFSC and has strained relations between USAID and the Caribbean business community. RDO/C and CFSC have made strides in rebuilding relationships between the two organizations.

The **Infrastructure for Productive Investment Project** (IPIP), which received loan funds from RDO/C for investment in construction of industrial estates and factory shells, has been largely unsuccessful. Funds were to be channeled through the East Caribbean Central bank, and thence through commercial banks to individual investors. The resulting availability of factory space was to meet demand from foreign investors in particular. The industrial estate program suffered from an almost total lack of demand: potential investors were not willing to construct on speculation in the face of competition from public space available at subsidized rates. Demand for funds for the construction of owner-occupier factory shells was stronger than anticipated, and the project has funded 74,000 sq.ft. of space, but most requests were turned down by commercial banks as bad risks.

The **Employment Investment Promotion II project** (EIP II), which was carried out by the CDB, utilized loan funds from RDO/C for onlending to national Development Finance Corporations to finance factory shells and industrial credits for small and medium scale firms. The purpose was to stimulate investment by such firms and thereby to increase production and employment in the region. The project funded about 302,000 sq.ft. of space in the OECS, much of which is occupied by firms engaged in assembly operations producing for the US export market (many of whom are foreign investors) who provide employment for over 2000 people. The project also provided $850,000 in industrial credits in the OECS. On the one hand, it appears that such funds are often the only source of financing for small-scale firms, many of which are viable, though often struggling enterprises. On the other hand, many of the subloans financed by EIP II are deeply in arrears, reportedly due to a combination of difficult business conditions and a feeling on the part of borrowers that DFCs are lenient and can therefor be placed low on the list of repayment priorities.

The **Caribbean Project Development Facility** (CPDF), which received USAID grant funds under the "Accelerated Private Sector Assistance" Project has been largely successful in its efforts to

increase the supply of bankable projects in the Caribbean, although at relatively high unit cost. The CPDF, which was initiated by the UNDP and has been executed by the IFC, has provided a variety of services to a large number of medium-scale entrepreneurs, including, most importantly, assistance in the preparation of business proposals to be submitted to financing agencies and in subsequent negotiations of financing terms. Other services provided have included general business advice and arranging technical assistance for Caribbean business ventures. It appears that CPDF has made a significant difference in bringing sound business ideas from the conceptual stage through the funding stage, and that CPDF proposals have a demonstrable market value and a favorable benefit cost ratio. CPDF has written 26 project proposals for the OECS/Barbados, of which nine have been funded.

Of the four projects, CFSC has been the most successful and IPIP the least. However, each project contained some elements of success and failure. Overall, it is clear that there is a demand for USAID supplied long term credits for direct lending to local firms in RDO/C's market area. The experience of these four projects has been very different from RDO/C's CDB and LAAD projects, which failed to establish a substantial private sector demand for agribusiness loan funds in Barbados and the OECS states. Even so, our financial cluster evaluation does indicate that RDO/C, in an attempt to find innovative solutions to perceived constraints, obligated substantial amounts of resources to poorly conceived projects and project elements. The likelihood that donor-funded private sector projects will be successful can be substantially increased when local business leaders are involved in the design and execution of these projects; however, local businessmen may be much more concerned with the efficiency, sustainability, and conventional achievements of the institutions which they control than they are with experimentation, social equity, and with USAID concerns not directly connected with the expansion of business activity. USAID loan funds denominated in US dollars make borrowers incur a foreign exchange risk which reduces demand for loan funds and adds significantly to total project risk. Private sector institutions have been able to play a positive role in some development efforts but have proven ineffective or inappropriate agents in other cases.

A final major conclusion is that a portfolio of private sector projects can and should span a wide spectrum of development strategies, ranging from a predominantly "growth" orientation (emphasis on business growth, employment and income generation, and self-sustainability) to a predominantly "equity" orientation (emphasis on reaching the disadvantaged and improving the distribution of opportunity and productive resources). However, no single RDO/C project has achieved all objectives simultaneously, nor is it realistic to expect any single institution or project to do so. It is appropriate for RDO/C to have a range of specialized projects in its portfolio, and to achieve its objectives through balanced investment in these specialized projects.

EXECUTIVE SUMMARY

I. INTRODUCTION

This evaluation report is devoted to the assessment of four of RDO/C's financially oriented private sector projects. Each of the four projects either provides finance to entrepreneurs for direct productive investment, provides finance for the construction of factory shells, and/or assists entrepreneurs in the preparation of proposals for financing. The four projects are: the Caribbean Financial Services Corporation (CFSC, 538-0084, discussed in Section II), the Infrastructure for Productive Investment Project (IPIP, 538-0088, Section III), Employment Investment Promotion II (EIP II, 538-W-12/538-0018, Section IV), and the Accelerated Private Sector Assistance Project (538-0060) carried out by the Caribbean Project Development Facility (CPDF, Section V). Section VI of this Executive Summary provides overall evaluation conclusions.

The evaluation team performed its field work in July and August, 1987. The team reviewed relevant project documents, and interviewed RDO/C project officers, implementing agency project managers and other personnel, and the principals of businesses assisted by any of the four projects, as well as personnel of institutions otherwise involved with any of the four projects (e.g., commercial bank personnel who administered IPIP loans). The focus of the evaluation was on economic impact, measured in terms of investment, employment, sales and exports. Evaluation team members conducted field visits in each of the member territories of the Organization of Eastern Caribbean States (OECS - Antigua/Barbuda, Dominica, Grenada, Montserrat, St.Kitts/Nevis, St. Lucia, St. Vincent and the Grenadines) and Barbados, and acquired relevant information on each project's activities since its initial implementation.

II. CARIBBEAN FINANCIAL SERVICES CORPORATION

PROJECT DESIGN:

The purpose of the CFSC project was to establish a privately owned, for profit, development financial institution to provide term lending and other financial services to private sector enterprises in the English-speaking Caribbean. The services were expected to contribute to new investment, and increased employment, income and foreign exchange earnings in the region. Funding of the CFSC loan portfolio was to be provided by RDO/C, the adjusted commitment of which now totals $14,835,000. A $400,000 grant was to defer organizational costs and external evaluations.

EVALUATION FINDINGS

1. THE COMPANY: Equity totalling $3,012,500 has been invested in CFSC by individuals and corporations from the region, international commercial banks and multilateral development institutions. CFSC has been successfully established, and with somewhat more than three years operating experience, it has established itself in a unique market niche as a responsive, efficient, moderately profitable, long-term lender to privately-owned manufacturing, service and tourism projects. It typically lends on longer terms and with greater reliance on cash flow and less requirement for collateral than commercial banks. About a third of the loans have been made to start-up operations, and up to half of the projects financed might not have gone forward if CFSC assistance had not been available.

2. IMPACT: The most easily measurable output listed in the project paper was the loan portfolio itself, where lending targets were set for discount, direct and "other financial service" categories. The demand foreseen in the Project Paper for discount of commercial bank loans did not materialize, and because these discounts were to account for more than half of all lending, total lending targets have not been achieved. The lack of demand was the result of a variety of factors, principally increased market liquidity and commercial bank/borrower unwillingness to assume foreign exchange risk (which was not assessed in the market survey upon which the 1983 Project Paper was based). Nevertheless, considering operations to have begun in the first quarter of 1984, targets for direct lending have been consistently exceeded. On June 30, 1987 direct loans totalled $6,091,000 - well above the original plan for loans in this category, but only about half of the total outstandings envisioned in 1983. The expected impact on employment, income, and foreign exchange earnings in the region has been generally equal to or better than that foreseen in the project paper per dollar lent. The report details these results, which include 420 permanent new jobs and foreign exchange impact of $4.6 million per annum.

3. Disbursement of USAID loan funds to CFSC totalled $4,795,000 as of June 30,1987, 32% of the total adjusted USAID commitment which expires Dec. 31, 1989. Grant funds of $400,000 were not used for executive search or start-up costs as planned; $35,654 was used for external evaluations, and additional expenditures will be made in the development of other financial services.

4. CFSC could probably have accelerated the growth of its direct loan portfolio and hence achievement of overall project purposes by adopting a more aggressive policy and hiring additional

lending officers. However, the Board of Directors has pursued a more cautious and deliberate growth policy to protect capital and insure profitability. For the same reasons, development of other financial services has been deferred until recently: approvals of a first equity participation, involvement in the creation of a stock exchange in Barbados, and commitment of grant funds to study development of other financial services have been activities undertaken during the past year.

5. FOREIGN EXCHANGE RISK: Lending in U.S. dollars protects AID from foreign exchange risk, but not CFSC or the sub-borrowers. This risk factor tends to restrict demand, for the number of projects earning enough foreign exchange to fully offset devaluation is limited. CFSC borrowers, unable to obtain suitable funding in local currencies, incur the risk of local currency devaluation against the US dollar, of which some are not fully aware. Hedging these risks is generally not feasible. CFSC continues to explore the possibility of currency swaps and other exposure management techniques.

6. PRIVATE SECTOR INVOLVEMENT: The successful involvement of private sector leaders in the design and implementation of the project is a most commendable RDO/C achievement; it is unique in the experience of the evaluation team. The experience and commitment of CFSC Directors have been invaluable resources in the company's development. The Directors from the region have a remarkably strong personal commitment to the project, having provided their individual assurances in the equity raising process that everything possible would be done to insure success, avoiding the excesses, embarrassments and failures of similar ventures elsewhere. Having so involved their reputations, Directors have been understandably cautious and prudent in the exercise of their trust.

7. IG AUDIT: Given the background described above, it is easy to understand the dismay and alienation caused by the Inspector General's 1986 audit, which impugned the integrity of CFSC Directors and was strongly critical of operations and achievements. After registering their protests, management and to a lesser extent the Directors have endeavored to shrug off that criticism as that of an auditor perceived as an inexperienced junior. Nevertheless, the report has been a major irritant that may have impaired the success of the project: it has strained USAID's relationship with Directors and conditions CFSC's repose to further USAID initiatives. The audit has rigidified their views and made constructive adjustment and self-criticism more difficult, the opposite of the intended purpose.

CONCLUSIONS:

1. CFSC is among the most successful of the private sector projects managed by RDO/C in terms of total investment, employment, net foreign exchange earnings, and prospects for sustainability.

2. The principal reason for CFSC's success is that RDO/C succeeded well in involving the private sector in the project design, thereby assuring their subsequent commitment to achieving results. It has been especially beneficial to involve very experienced Directors, who willingly devote considerable time and effort to CFSC activities. The atmosphere created by the IG audit may have frustrated what could be a more productive interaction between the project, its Directors and other AID private sector efforts.

3. The failure to achieve planned loan volume is primarily due to a flawed initial assessment, in the market study upon which the project paper was based, of demand for discounting commercial bank loans. Although a more aggressive CFSC approach could have produced more direct lending to compensate for the short-fall, it would have been more realistic to adjust the targets.

RECOMMENDATIONS:

1. CFSC and RDO/C should review the future requirements for AID funds. RDO/C should deobligate those amounts unused in the discount program if they cannot be utilized for other CFSC programs presently under development.

2. It would be preferable for sub-borrowers who do not earn foreign exchange or its equivalent to borrow in local currencies. RDO/C should investigate ways to provide CFSC with local currency funding to avoid subjecting it and sub-borrowers to the foreign exchange risk.

3. RDO/C should review the problems created by the IG audit for possible corrective action.

4. RDO/C staff should continue to seek opportunities to promote development and reinforce mutual understanding through constructive dialogue with CFSC directors and management.

III. INFRASTRUCTURE FOR PRODUCTIVE INVESTMENT

PROJECT DESIGN

The Infrastructure for Productive Investment Project (538-0088,-IPIP), initiated in September 1984, was to provide $12 million in obligated funds which would be channeled through the Eastern Caribbean Central Bank (ECCB), to commercial banks in the member countries of the OECS. IPIP was to fully fund commercial bank subloans to private developers for the construction of industrial floor space along with supporting infrastructure and related technical assistance. The purpose was "to provide the physical infrastructure required for expanded private production which would result in increased employment". The project was intended to enhance significantly the attractiveness of the Eastern Caribbean as an investment host. The rationale behind the project was that the demand for industrial infrastructure exceeded supply and that the lack of factory space was the predominant constraint to the expansion of private production in the region. It was further assumed that the existing mechanisms for dealing with this constraint could not respond to the start-up time and service requirements of foreign investors.

The project was expected to finance the construction of an estimated 600,000 sq. ft of private industrial floor space and supportive infrastructure. As a result, the project would provide for the employment of at least 4,000 people, generate a minimum of $100 million in additional export sales from the region and facilitate the introduction of private industrial estate development and management to the region.

EVALUATION FINDINGS

1. The project was expected to disbursed $10 million for industrial estate development and $2 million for owner-occupier factory shells over a three year period (October 1984 to September 1987). Summary tabulations of disbursements of sub-loans are as follows:-

Sub-Loans Disbursed by ECCB

	Country	Amount Disbursed
Cage Enterprises	Antigua	400,000
LICS Limited	Antigua	130,000
Crabbs Marina- Ottos Industrial Estates	Antigua	153,000
Rigid Panel Systems	Grenada	650,000
		1,333,000

In addition, $250,000 has been approved for an owner occupier nail plant in St Kitts and $150,000 for an owner occupier concrete plant in Antigua. Of the $1,330,000 disbursed, $650,000 represents funding for which the owner clearly had alternative funding sources and $400,000 represents investment in a building which is presently unoccupied.

2. $6 million of the project funds were de-obligated in 1987. As shown, none of the funds reserved for industrial estate development were utilized but most of the $2 million reserved for owner occupier factory shells development should be fully utilized by the project completion date. Presumably, the unutilized balance of almost $4.3 million will be deobligated shortly after the project completion date.

CONCLUSIONS

1. The IPIP project basically has been a failure. RDO/C's decision to terminate the project was sound. The project has had little success in terms of anticipated impact, as shown below.

ANTICIPATED/ACTUAL OUTCOMES

	ANTICIPATED	ACTUAL
Job Creation	4,000	150
Floor space (sq. ft)	600,000	74,000
Export Sales (annual)	$100 million	Minimal

2. There was little or no demand for funds from foreign investors to develop private industrial estates in the OECS. The reasons why demand from foreign investors for funds for industrial estate development did not match expectations appear to be as follows:-

a. The expectations of CBI with regard to foreign investment in the Caribbean did not materialize; the OECS in particular was not seen to be an attractive offshore base for U.S investors and therefore the demand for factory space did not materialize.

b. The project design did not specify how the marketing of private floor space to potential US tenants would be carried out. Direct marketing would have been exorbitantly expensive and would have added unduly to the investment cost of privately developed industrial estates.

c. In most OECS states, privately developed factory shells would be competing with the government owned factory shells, but the search efforts in each territory by Governments and PDAP have been concentrated on finding tenants for the government owned factory shells.

3. Demand from local investors for funds to construct owner occupier factory shells was greater than anticipated. However, of the fifty enquiries received, only five ever reached the funding stage because most of the projects were not bankable.

4. The project was implemented at a time which coincided with a period of excess liquidity in the commercial banking system in the OECS states and as a result, the commercial banks did not show any enthusiasm for lending IPIP funds. In addition, it also appears that the local commercial banks were not interested in taking on the foreign exchange risk associated with the US dollar IPIP loans.

5. Even if demand for factory shells had matched expectations, there is little evidence to suggest that private sector development of industrial estates would be the appropriate solution to the OECS investment problem. It is very unlikely that foreign investors would be willing to come into a region of unproven industrial experience and construct factory shells in anticipation of future demand. It is equally unlikely that these investors would be able to charge the rents that would make the project feasible given the subsidized rental rate policy adopted by the public sector in the region.

6. The IPIP program has shown that there is a case for altering the project design when the assumptions made during the design stage are shown to be unfounded during the execution of the project. The evidence suggest that if the IPIP project had been altered to make a multi-purpose long term credit program it would have been more successful in meeting its purpose of expanding private production in the region.

IV. EMPLOYMENT INVESTMENT PROMOTION II

According to the 1979 project paper, Employment Investment Promotion II was intended to "stimulate investment in small and medium business necessary to increase production and employment in the region." Total USAID funding available for the project totaled $9.8 million, of which loan funds (538-W-012) amounted to $8.4 million and grant funds for technical assistance (538-0018) amounted to $1.4 million. The project was carried out by the Caribbean Development Bank and various national Development Finance Corporations (DFCs) and Industrial Development Corporations (IDCs). There were two major components to the program: industrial credits and factory shells. It was expected that there would be 2 - 4 regional commercial banks involved in the program, 3 - 5 "revitalized" DFCs, and 150 subloans annually to small and medium businesses. It was expected there would be five subloans for the construction of factory shells. The project completion date was December 31, 1985.

A. Industrial Credits

Of the total $6.7 million disbursed by EIP II for all purposes, $2.7 million was disbursed for industrial credits via the DFCs, including $850,000 in the OECS. Commercial banks proved to be unwilling to participate in the program. A 1984 evaluation conducted by Arthur D. Little, Inc., found that, as of 1984, relatively little project funding had been disbursed for industrial credits in the territories they visited, that there had been very little economic impact (in terms of employment and exports) from the program in the territories visited, and that "the small business lending program was severely hampered and delayed by the prior necessity to reorganize, rationalize, and otherwise provide technical assistance to the DFCs in each of the countries... [a process] initiated by the CDB for very legitimate financial and economic reasons..." Since the ADL evaluation team was unable to visit the DFCs in Grenada and Montserrat, the current evaluation concentrated on those territories.

EVALUATION FINDINGS:

1. The Montserrat Development Finance and Marketing Corporation disbursed $55,000 to three borrowers - an ice cream maker, a forestry project, and a government owned tannery. The Grenada Development Bank disbursed $112,000 to ten borrowers, including those in production of soap, furniture, cassava, and wrought iron as well as a banana plantation, a bakery, a guesthouse, fishing, and other industry. The evaluation team also met briefly with the Manager of Dominica's Agricultural and Industrial Development Bank (evaluated by ADL in 1984), which received $500,000 under a "Consolidated Line of Credit."

2. Most entrepreneurs described the industrial credits as important or critical to the start-up or expansion of their businesses, and reported that their chances of obtaining financing under reasonable terms from other sources were limited.

3. Arrears were very high at the Montserrat DFMC, approaching 85% of amounts disbursed. Arrears were substantially lower at the other two institutions, but DFC personnel all reported that arrears in industry were higher than for other sectors. They explained that the manufacturing in the Eastern Caribbean was severely injured by the loss of regional markets since 1983. They explained that loans for industry were usually among the largest loans made, and that loan repayment for entrepreneurs in industry represented a very large portion of borrowers' cash flow. They also mentioned that there were few mechanisms for automatic repayment of industrial credits, which assists in the collection effort in other sectors.

4. DFC personnel also reported that arrears for the DFCs were probably higher than for other financial institutions. In this regard, they explained that they were hurt by their status as government-owned institutions: they were thought of as more lenient than private, commercial lending institutions and were therefore put low on the borrowers' list of payment priorities. This situation was described by most personnel as "improving", with government interference on behalf of recalcitrant borrowers a greater problem in the past than at present.

CONCLUSIONS

The EIP II industrial credit program met a need for long term credit by small and medium-scale entrepreneurs in the OECS and made a contribution toward business growth and employment. The program made little contribution to export earnings. The level of arrears within the program may be somewhat higher than would be accounted for by business conditions alone, as DFC personnel report that it is difficult to enforce timely repayment from a body of borrowers who view the DFCs as lenient, governmental institutions.

B. Factory Shells

The EIP II factory shell program has disbursed a total of $4.01 million, of which $3.3 million has assisted in the construction of about 302,000 sq. ft of floor space in five OECS countries (St Lucia, St Vincent, St Kitts, Montserrat and Dominica). In the initial design, the program was primarily intended to help stimulate investment in small and medium size business, but as pointed out in the Arthur D. Little, 1984 evaluation report, the program has increasingly been viewed by member countries and the CDB as a tool for promoting investment (including foreign investment) for export markets outside of Caricom.

EVALUATION FINDINGS

1. In St Lucia $1.0 million of USAID funds were disbursed to assist in the financing of 78,942 sq. ft. of factory shells. Of the nine shells completed under the program, only one is unoccupied. The businesses occupying the shells are all assembly operations involved in the garments or electronics industries producing for the U.S.A market. Employment generated by the businesses occupying these factory shells is in the region of 840. Only one tenant is in arrears.

2. In St Vincent $1.2 million of USAID funds were disbursed to assist in the financing of the construction of 109,000 sq. ft of factory space. An additional 12,000 sq.ft is under construction.

Of the seven shells completed under this program, half of a 20,000 sq.ft shell is unoccupied. Employment generated by the project is in the region of 710. Only one tenant is in arrears. All the tenants, with one exception, are involved in assembly operations for the U.S market.

3. In St Kitts $52,000 of USAID funds were disbursed to assist in the financing of the construction of 42,500 sq. ft. of factory space. Of the seven shells constructed, two are unoccupied. The tenants of the shells are all involved in assembly operations for the U.S.A market. Employment generated by the project is in the region of 150. There are no arrears problems.

4. In Dominica $ 910,000 of USAID funds were disbursed to assist in financing the construction of 52,000 sq. ft. of factory space. Four of the six tenants are involved in assembly operations for the U.S market. Employment generated by the project is about 300. One tenant is deeply in arrears.

5. In Montserrat $139,000 of USAID funds were disbursed to assist in the construction of 8000 sq.ft of factory space. There are two tenants both producing for the export market. Employment is in the region of about 90. One of the tenants is in arrears.

CONCLUSIONS

The evaluation evidence suggests that the EIP II factory shell program has broadly met its objectives in terms of providing a stimulus for promoting investment in the region. The program has assisted in providing employment for some 2100 persons in the region. General findings indicate that the shells are well maintained and as a rule the arrears situation is well under control. The majority of the tenants interviewed cited the availability of these factory shells as a major factor in their decision to locate in the country in which they were operating.

V. ACCELERATED PRIVATE SECTOR ASSISTANCE

PROJECT DESIGN

According to the 1981 project paper, the purpose of the Caribbean Project Development Facility was to "increase the supply of investment projects worthy of consideration for financing by prospective lenders and investors." The project was initiated by the United Nations Development Program (UNDP), and executed by the International Finance Corporation (IFC). Grant funds for the operation of CPDF have been provided by a number of donor agencies, including USAID, which has obligated a total of $2 million (denoted "Accelerated Private Sector Assistance") to the project since its initiation. The USAID contribution has represented about 30% of CPDF's 1981-1987 cash budget of $6.6 million.

It was expected that the Facility would assist in the development of productive ventures involving investments in the range of $500,000 to $5,000,000 throughout the Caribbean region. CPDF would work with Caribbean entrepreneurs and prepare project proposals for submission to financing agencies. It was anticipated that the project would consider 60-120 projects per year, with 7-15 referred to financial institutions, and that 5-10 proposals per year would actually be financed. In addition, CPDF would also provide business advice and arrange for technical assistance for Caribbean enterprises.

FINDINGS:

1. Overall CPDF performance has, for the most part, been within the ranges outlined above, with achievements in the early years sometimes shy of the mark and achievements in the past two-three years significantly above the targets. About 66 proposals have been prepared, of which about 30 have secured funding.

2. In RDO/C's area of interest, the OECS and Barbados, CPDF has completed 26 project proposals, of which nine received funding (representing investments totaling over $8.1 million and involving outside loan or equity financing totaling over $6.2 million). Six of the projects are currently in operation, employing about 179 people full time; three projects have been funded and are starting up operations. The outcomes of all 26 proposals, by country, are outlined below:

COUNTRY	FUNDED	SEEKING FUNDING	FELL THROUGH	TOTAL
Antigua/Barbuda	4	2		6
Barbados	2	2	1	5
Dominica		3	1	4
Grenada	2	1	2	5
Montserrat		1	1	2
St. Kitts/Nevis	1			1
St. Lucia			2	2
St. Vincent			1	1
	---	---	---	---
TOTAL	9	9	8	26

3. As of end July, 1987, CPDF had 34 potential projects in the OECS/Barbados in its pipeline, of which six were described as "advanced" (project proposals being prepared or likely to be prepared in the near future). In addition to project proposals,

CPDF has assisted entrepreneurs by arranging technical assistance and funding for pre-feasibility and feasibility studies.

4. Divided by industry category, fully half of the 26 proposals were in agriculture or agro-industry, nine were in manufacturing or mining, and four were in the tourist industry. Just under half the projects were export oriented. A range of financial institutions, including CFSC, commercial banks, DFCs, and other regional financing agencies have funded CPDF projects.

5. CPDF's clientele includes the following categories:

a. Established entrepreneurs who wanted to enter new lines of business or expand their production for export, but who might not have bothered to carry their plans forward and seek financing without CPDF support. In these instances, CPDF may have assisted entrepreneurs who did not strictly need "assistance". Nevertheless, most interviewees reported that the quality of CPDF's proposals added credibility to business proposals and made a significant positive difference in seeking financing. CPDF also approached some established entrepreneurs with new project ideas which had not been seriously attempted before.

b. A number of small and medium-scale entrepreneurs who had less chance of obtaining financing to begin with, but whose chances were significantly improved with the CPDF proposal.

CONCLUSIONS

1. On the basis of the wide range of interviews with entrepreneurs and financing agency personnel, it is the judgement of the evaluation team that CPDF has indeed increased the supply of bankable projects in the OECS and Barbados, leading to new investments and increased employment, foreign exchange earnings and other economic benefits. CPDF's direct costs for proposal preparation are about $35,000 per proposal completed and $54,000 per proposal funded, which compares favorably with rough estimates of market valuations of the benefits of CPDF proposals to project sponsors.

2. Personnel from financing institutions reported that they found CPDF proposals of consistently high quality (although in some instances lacking in a thorough appreciation of Caribbean business conditions), and that the CPDF proposals permitted them seriously to consider prospects which might have been disregarded before, and speeded the approval process in general. CPDF has sent several proposals to CFSC, two of which have been funded and one is about to be approved. CFSC, in turn, often suggests to potential clients that they seek assistance from CPDF.

3. CPDF's introduction of a 2.5% success fee on financing obtained met with a diversity of opinion, ranging from those who felt that development assistance should be provided free of charge, to those who suggested that such a fee was indeed appropriate for the value of the service provided.

RECOMMENDATIONS:

1. CPDF has been largely successful in its goal of increasing the supply of bankable projects in the region, and it appears that CPDF costs, although relatively high, are easily outweighed by the benefits of its activities.

2. CPDF proposals have calculable cost and a demonstrable market value. Depending on the willingness of donors to defray expenses, and the resources of the client, CPDF may wish to assess and charge "user fees" which cover most or all the direct costs of providing proposal writing and finance-negotiation assistance.

3. CPDF should be encouraged to continue and accelerate its use of Caribbean contractors in its activities.

VI. OVERALL EVALUATION CONCLUSIONS, RECOMMENDATIONS, AND LESSONS LEARNED

CONCLUSIONS

1. **Provision of long term credit for direct lending to industrial, commercial, and service establishments has found a ready market in RDO/C's target area, and has led to significant development impacts. Availability of credit of this kind was found to be a necessary but not a sufficient condition for new investment and economic development.**

Entrepreneurs reported that the CFSC and EIP II loans were critical to the establishment or expansion of their business; many reported that they were unable to raise financing at commercial banks; all described CFSC/EIP II lending terms as more favorable than those of commercial banks. CFSC was also described as more responsive and flexible than CDB and the DFCs, and capable of handling larger loans than the DFCs.

However, investment prospects in the OECS and Barbados are still limited under current conditions. Constraints reported in the past by financiers included a lack of sound, bankable business proposals. This constraint has been and is being addressed by CPDF, and the combination of CPDF and CFSC (and other financing agencies) has been effective in increasing the supply of funded projects in the Eastern Caribbean. Other constraints which remain largely unaddressed include a lack of equity financing, a lack of entrepreneurial and management skills in many of the OECS territories, the small size of local markets and lack of access to extra-regional markets, and a wide variety of government-imposed constraints or disincentives to business growth (which can be waived, but only after time-consuming petitioning). The impact of the availability of long term financing will continue to be limited as long as the above-listed constraints exist.

2. In some cases substantial resources were obligated to projects that were poorly designed or based upon unwarranted assumptions.

For example, IPIP was based upon two assumptions which proved to be unfounded: 1) that the investment climate in the OECS would be so attractive as to encourage a major demand for industrial space from foreign investors; and 2) that there existed a demand from private foreign investors for funds to invest in factory shells which they could build more quickly and more cheaply than those constructed by the public sector. It is true that these assumptions were made in a climate of widespread general optimism, but both assumptions could and should have been thoroughly tested before obligating $10 million dollars to projects dependent upon their validity.

In the case of CFSC, $5 million was provided to discount commercial bank loans, despite evidence that there would be little or no demand for these funds on the conditions under which they were being offered.

3. The likelihood that donor-funded private sector projects will be successful can be substantially increased when local business leaders are involved in the design and execution of these projects. However, local businessmen may be much more concerned with the efficiency, sustainability, and conventional achievements of the institutions which they control than they are with experimentation, social equity, and with USAID objectives which they do not necessarily share.

When capable business leaders directly involve themselves in USAID-funded private sector projects, it is likely that implementing institutions which they guide will be relatively well run, cost effective, and customer-oriented. Business leaders may be expected to focus on the achievement of development objectives in the practical and conventional terms: more investment, more exports, more jobs, good repayment records, adequate profitability - and to seek these results by the means in which and through the people in whom they have the most confidence. They may be unwilling to experiment with activities and strategies that have not yet been proven in their region. They may treat some USAID concerns as "ideological" and others as inspired more by a desire for favorable publicity than results. They may be particularly intransigent where recommendations for change are seen to come from persons lacking in business experience and in willingness to take responsibility for consequences. In these respects, organizations supported by local business leaders may be among the least malleable and pliable of the implementing institutions with which USAID deals.

In short, businessmen can be expected to behave like businessmen.

4. If local currency devaluation occurs, loans denominated in U.S. dollars can be detrimental to projects which do not earn foreign exchange directly or for which prices cannot be effectively adjusted to service foreign debt.

This basic principle of international commercial lending should not be ignored because a project is directed to development or because the funding agency has no easy access to local currencies.

Also, demand for funds offered by credit projects is restricted by fear of devaluation. While expectations of currency adjustments varied from borrower to borrower, they were least taken into consideration by less experienced sponsors of start-up projects, which are also those least able to bear the burden. The real target projects--those with no alternative source of funding--are rendered even more vulnerable.

From a development standpoint and in order to minimize at least one of the many risks not subject to control by project sponsors, it would be desirable to fund in local currency at least those portions of projects not involving imports. When local currencies are not directly available to USAID, they can often be raised through guarantees, currency swaps, and other techniques which USAID can facilitate.

5. It is preferable to contribute resources to development projects in such a way as to increase the mobilization of domestic resources and not contribute to continued dependence upon donor or international external funding.

Opportunities to encourage local funding were overlooked in the design of several cluster projects. Funding could be provided by public and private pension plans and social insurance funds, private insurance companies, trust companies and other institutions public and private which have a need for low risk, long term assets. These institutions could be encouraged to deposit in CFSC by a USAID guarantee or equivalent (mechanisms have been arranged in other countries to avoid conflict with regulations prohibiting direct guarantees by USAID). These arrangements would result in higher nominal interest rates than those now charged on the USAID loans, but the effective rates may be lower when taking devaluation risk into account. Such arrangements, including a number of possible variations, would be the classical first steps in introducing a new borrower to the markets, which in themselves need development and new instruments. As depositor/lenders become familiar with the new borrower's instruments, it is possible to introduce changes which will reduce or eliminate dependence upon USAID support, mobilizing domestic financial resources. Other techniques for leveraging the impact of USAID funding include the use of quasi-equity to support other borrowings.

Productive as the straight lending for repass to projects can be, the impact is only dollar for dollar and does not contribute to a self-sustainable project. Introduction of these additional approaches, while not easily accomplished, can eventually result in greater leverage of USAID funding, some contribution to the development of local financial and capital markets, and the increased likelihood of creating a financial institution which will not be wholly dependent upon USAID funds. Not only is the project more self-sustaining, the countries are encouraged to maximize usage of their own resources for development and self-reliance.

Different funding strategies for IPIP and CFSC might have resulted in even greater productivity of USAID funds. In the case of CFSC, it is not too late to introduce project changes.

6. **Best project results are achieved by precisely targeting project objectives, limiting these if necessary to insure their coherence and consistency with those of the implementing agency. To achieve overall program balance, a portfolio of projects can be designed, each focused on different developmental goals.**

A program may include a spectrum of strategies ranging from "growth oriented" at one end to "equity oriented" at the other; projects are of necessity more limited in scope, and no single one of them is likely to be capable of meeting the demands of the complete spectrum.

A growth oriented strategy places emphasis on "success" in terms of business growth, employment, export earnings, and early achievement of self-sustainability; an equity oriented strategy emphasizes improvement in the distribution of opportunities and productive resources, seeking out those who need assistance. The growth strategy runs the risk of disappointing those who believe they are deserving of assistance and of wasting resources on those who may not need assistance; the equity strategy runs the risk of poor performance in terms of bottom line indicators, and of developing a psychology of dependence upon continuing artificial support. It appears, however, that it does not work well for a single project to attempt to pursue both strategies with equal vigor.

The evaluation evidence suggests that a well designed project, with an established strategy fully utilizing the strengths of the implementing agency can achieve notable successes. Good examples are CFSC, CPDF and the EIP II factory shell program. Because USAID is providing subsidized funding, it is only reasonable to expect an implementing agency to be somewhat versatile and tolerant of the ambiguities inherent in requests to contribute to the two sometimes inconsistent goals. Limits to this tolerance must be carefully observed, and implementing agencies should not be asked to make fundamental changes in their own goals, methods and predispositions for AID convenience. Projects requiring the implementing agency to act out of character are more likely to lead to mutual frustration than accomplishment.

7. **Both project design and evaluation would benefit from better impact indicators and measures of achievement.**

These indicators would also contribute to more accurate comparison of project effectiveness and improved future allocation of resources. Projects were sometimes justified upon expected impacts that were unrealistic or improbable, and often not subject to measurement. In some instances the theoretical bases for assumptions were weak or not well reasoned, and not given the design attention merited by the considerable sums involved. Exaggerated forecasts of employment, income, and foreign exchange impacts in several cluster projects are examples of this deficiency.

RECOMMENDATIONS

1. Design credit programs so that funding is in the appropriate currency, separating balance of payment from project development objectives. Include mobilization of domestic resources as a primary objective, not only to maximize leverage of USAID funds but to encourage self reliance. If foreign exchange risk must be incurred, insure that it is borne at the level where it can best and most appropriately be met, often the national government or central bank.

2. Achieve diverse program goals through portfolio mix rather than complicate project implementation with multiple objectives.

3. Involve implementing agencies in project design to the maximum extent possible to insure effectiveness and commitment.

On the other hand, don't expect them to be the primary agents for changes with which they are not in agreement or which they are not well equipped to implement (either by resources or temperament), although it is reasonable to expect an implementing agency to be somewhat versatile and tolerant of the ambiguities inherent in requests to contribute to USAID goals.

LESSONS LEARNED

1. The design of private sector projects involving the disbursement of USAID loan funds should be based on market surveys/feasibility studies which are up to private sector standards for investment decision-making.

Before undertaking a major investment commitment, any private sector, for-profit institution will undertake a market survey or feasibility study which will rigorously test the initial assumptions of any potential project. Potential customers are queried extensively as to their needs, preferences, budgets, and alternative sources of supply. Potential suppliers are assessed on quantity and quality of supplies, consistency, timing of deliveries, and costs. Such studies are not a casual undertaking, and warning signals uncovered in the process are taken very seriously.

The two most heavily private sector-oriented projects considered by this evaluation were CFSC and IPIP, both of which involved not only a private sector clientele, but private sector implementing agencies as well. In the case of CFSC, a thorough market survey was undertaken during the design process. The study determined, among other things, that there was a potential demand on the part of commercial banks in some countries for discounting facilities, as long as there was a shortage of liquidity in the system and assuming the banks would not be required to bear the foreign exchange risk. In spite of the qualifications and warnings, the CFSC project as presented in the project paper and stipulated in the loan agreement, was expected to disburse the largest part of its portfolio in the form of commercial bank discounts, with the commercial banks bearing the foreign exchange risk. As a result, there has been no demand whatsoever for the discount service, and funds earmarked for this purpose have gone unutilized.

The IPIP project was designed to provide loan financing for privately owned and operated industrial estates. The demand for such funds was inferred on the basis of the experience of existing projects, including PDAP, which reported that foreign investors turned down investment opportunities in the region due to a lack of factory space. Aside from these observations, there was little in the nature of a market survey on which to base the

IPIP design. Over $10 million in project funds were obligated which were never disbursed.

USAID only "authorizes" and "obligates" funds for new projects, and has more rigorous screening requirements built into its system before disbursements can take place (e.g., through the risk born by the private sector implementing agencies). In this sense, USAID is not actually investing resources prematurely or injudiciously. However, funds authorized or obligated for one project cannot be disbursed by another, and it generally takes two to four years before unutilizeable project funds can be de-obligated or re-obligated to other projects. In this sense, there is a clear development opportunity cost to the obligated funds, and a compelling reason for USAID to base its obligations on more rigorous analyses taken more seriously than has been the case in the past.

2. Private sector institutions have been able to play a positive role in some development efforts but have proven ineffective or inappropriate agents in other cases.

For medium sized business ventures (loans in the range of $50,000 to $400,000), CFSC has proven an effective and worthwhile addition to the financial community. It has been described as responsive and flexible, and it appears that financial obligations to CFSC are treated more commercially than those to many of the DFCs, which often experience difficulty in loan collection. DFC personnel say their institutions are hampered by their government status which results in a widespread presumption of leniency.

On the other hand, however, IPIP - which was intended to channel funds through private commercial banks for private investors in industrial estates and (speculative) factory shell investments in the Caribbean (as in the United States) are undertaken by governments in their efforts to attract investment to their regions. Publicly sponsored programs usually offer space at subsidized rates, and public sponsors are the beneficiaries of increased taxes and other direct and indirect income stimulated by the investment in the area. Obviously, private projects do not derive similar income and must depend solely upon rental rates. Usually these cannot profitably compete with subsidized government rates. It is inappropriate to design a project requiring the private sector to compete on unequal terms with the public sector, unless of course it can be conclusively demonstrated that the public sector is unwilling or unable to satisfy potential demand.

FINANCIAL CLUSTER EVALUATION

CHAPTER ONE: INTRODUCTION

This evaluation report is devoted to the assessment of four of RDO/C's financially oriented private sector projects. Each of the four projects either provides finance to entrepreneurs for direct productive investment, provides finance for the construction of factory shells, and/or assists entrepreneurs in the preparation of proposals for financing. The four projects are:

1. The Caribbean Financial Services Corporation (CFSC, USAID project No. 538-0084, discussed in Chapter II), which provides term financing for medium-scale business ventures;

2. Infrastructure for Productive Investment (IPIP, 530-0088, discussed in Chapter III), which provides financing through the Eastern Caribbean Central Bank and local commercial banks for the development of industrial estates and factory shells;

3. Employment Investment Promotion II (EIP II, 538-W-012/538-0018, discussed in Chapter IV), which provided financing through the Caribbean Development Bank (CDB) for factory shells in publicly owned industrial estates, and which also provided lines of credit to several national Development Finance Corporations (DFCs) for on-lending as industrial credits.

4. the Accelerated Private Sector Assistance Project (538-0060) carried out by the Caribbean Project Development Facility (CPDF, discussed in Chapter V), which assists entrepreneurs in developing proposals for financing.

This Introductory chapter describes the background to and methodology of the evaluation, and presents the context in which the four projects were designed. Chapter VI of this report provides overall evaluation conclusions, recommendations, and lessons learned.

Appendix A contains the scope of work for the evaluation. Appendices B - F provides greater detail on each of the individual sub-projects examined by the evaluation team, organized by project (Appendix B: CFSC, Appendix C: IPIP, Appendix D: EIP II Industrial Credits, Appendix E: EIP II Factory Shells, Appendix F: CPDF). Appendix G describes the evaluation team assignments and qualifications.

A. BACKGROUND OF PRIVATE SECTOR PROGRAM EVALUATIONS

The evaluations of the financial projects represent four of some fourteen evaluations of projects within the ambit of RDO/C's Private Sector Program, which Louis Berger International, Inc. is carrying out for USAID over a period of two years. Project evaluation results will be synthesized and incorporated into two annual program reports. A "generic scope of work" (see Section B.2, below) is applied in each evaluation to analyze the project designs within a standardized program framework. Use of a standardized program framework facilitates comparisons among projects and integration of the results of individual project evaluations into the program reports.

The four projects were evaluated together because:

1. Recent guidance from USAID's Latin America and Caribbean Bureau favors clustered, program-related evaluations, where grouping is possible;

2. Both CFSC and EIP II have provided long term business credits to private sector firms. Although CFSC's clients and loans are generally larger than those of EIP II, there is some overlap which allows for comparison between the two projects;

3. CPDF referred many proposals to CFSC and the DFCs, and both the latter institutions referred potential clients to CPDF for proposal development assistance;

4. Both IPIP and EIP II provided finance for the construction of factory shells - EIP II through public sector institutions and IPIP through private sector agencies.

B. EVALUATION METHODOLOGY

1. Geographic and Temporal Scope of Evaluation

The evaluation team performed its field work in July and August, 1987. The team reviewed relevant project documents, and interviewed RDO/C project officers, implementing agency project managers and other personnel, and the principals of businesses assisted by any of the four projects, as well as personnel of institutions otherwise involved with any of the four projects (e.g., commercial bank personnel who administered IPIP loans). The focus of the evaluation was on economic impact, measured in terms of investment, employment, sales and exports. Evaluation team members conducted field visits in each of the member territories of the Organization of Eastern Caribbean States (OECS - Antigua/Barbuda, Dominica, Grenada, Montserrat, St.Kitts/Nevis, St. Lucia, St. Vincent and the Grenadines) and Barbados, and acquired relevant information on each project's activities since its initial implementation.

2. The Generic Scope of Work

The projects being evaluated have been designed (and in some cases redesigned) over a period of some ten years without the benefit of a common program framework. In order to translate project outcomes into program results, USAID's contract with LBII calls for the application of a kind of Program Master Plan version of the Logical Framework which the agency uses in designing individual projects. This Program LogFrame is called a "generic scope of work."

The generic scope of work used in these evaluations analyzes the project designs in terms of a standardized **program** framework and identifies the "bottom line" development impacts of the projects discovered during the course of the evaluation. Use of a standardized framework makes it easier to compare these projects with other private sector projects supported by RDO/C, and to integrate the results of individual project evaluations into an overall evaluation of RDO/C's private sector program. The generic scope of work is reproduced in full in Appendix A, with elements relevant to the four projects evaluated in this report highlighted and referenced.

No single private sector project is expected to achieve the full range of program goals and purpose elements included in the generic scope of work. However, when all of RDO/C's private sector projects are considered together as a program, reasonably complete coverage is anticipated.

The generic scope of work emphasizes "bottom line" development impacts. In some cases, such impacts have not yet occurred, but their necessary preconditions may have been fulfilled. In other cases, discovering the ultimate tangible impact will be very difficult, and may involve more time and expense than is reasonable to devote to a project evaluation. The objective is to discover such impacts wherever they are readily identifiable, and to emphasize accountability of implementing organizations in terms of achieving project purposes.

The generic scope of work (Program LogFrame) was created long after most of RDO/C's existing private sector projects were started. In some cases, it is being used to evaluate projects after they have been completed. Hence the generic scope of work necessarily imposes a degree of retroactive uniformity on the original designs of individual projects, centering on statements of **program** goals and purposes. In order to reduce the potential for conflict with existing project design documents, the generic scope of work (1) generalizes concepts commonly used in existing private sector project LogFrames; (2) focusses on **goal level measures** at the program level as contrasted with **purpose level measures** that are typically emphasized in project designs; and (3) addresses program purposes in terms of **purpose elements**, subcategories of purposes into which the purposes of all RDO/C private sector projects can be disaggregated.

The generic scope of work articulates three goals for RDO/C's private sector program: an economic development goal, a policy goal, and an institutional goal. The generic scope of work specifies over forty "purpose elements," a master list to which each RDO/C private sector project can be related at the purpose level.

In the final analysis, RDO/C is working toward the **economic development goal:**

> **To increase the contributions of privately owned business establishments to employment, production, productivity, net foreign exchange earnings, and/or to improved standards of living in the Caribbean.**

This statement was developed by LBII on the basis of a comparative analysis of project design documents for all of RDO/C's private sector programs. This economic development goal statement fits reasonably well with the goal statements of the four projects under consideration in this report. Note, however, that the goal statement included in the generic scope of work refers to "business establishments," not to economic conditions in general. The intention is to measure micro-level impact directly in order to overcome the ambiguity as to causation which is inherent in analysis of macro-level trends (e.g., employment creation resulting from a project may take place even while unemployment in general is increasing).

The other goal relevant to this evaluation, similarly developed on the basis of comparisons of all the projects in the private sector program, is simultaneously a goal in its own right and an intermediate goal toward the economic development goal defined above.

Institutional Goal Statement:

> **To increase the capacities, efficiency, and sustainability of institutions serving the private sector in these countries.**

In many respects, the institutional development goal serves the economic development goal: If viable institutions have been created which serve the private productive sector, then the increase in productivity, production, and sales which result should lead to increased employment, income, foreign exchange earnings and standards of living.

Causal Paths: The assessment of project design at this level is concerned with logical relationships between the enumerated project purpose elements and the stated goals of the program. We attempt to answer the question - "If the purpose of the project is being achieved, how is this achievement contributing to the fulfillment of the ultimate goal?" Among the forty-plus purpose elements identified for RDO/C's private sector program, approximately fifteen can be associated with at least one of the four projects evaluated in this report. These project design causal paths are described in each separate project chapter, below.

Evaluation Evidence: At this level of the analysis, the evaluation presents evidence of project-related outputs which contribute to the achievement of the purpose elements, and discusses the relationship between the output observed and the purposes identified and defined. In some instances, the connection is clear: a loan provided to a particular company allows it to open a new line of business, employing more people, and increasing production and sales at that company. In other instances, the connection is less clear: An entrepreneur received assistance from a technical advisor in preparing a proposal for financing to start a new line of business in, say, garment production. The proposal was not financed, but the entrepreneur subsequently prepared a new proposal, without assistance, for a new line of business in the production of duffel bags. If the new proposal was financed, it may be that the entrepreneur was in fact assisted by the technical advisor, in that he/she had learned how to prepare a financial proposal independently.

The key evaluation question is not, "Did things get better after the project started?" It is rather, "Were things better with the program than they would have been without it?" Put another way, "What was the net impact of the project, given the other things that were going on in the environment." A suitable control group is necessary to test the "with and without" question rigorously. Unfortunately, the evaluation team had no "control group" identical in all important respects to the firms visited for this evaluation.

Given the lack of a readily available and cost-effective control group, the present evaluation has sought information, often subjective, relating to the net impact of the project, given the other things that were going on in the environment. For the most part, this evaluation has sought information at the "micro" level: for example, quantitative and anecdotal evidence that production of individual manufacturing establishments has increased as a result of loans, factory space, or technical assistance provided through one of the four projects. Examination of the details of a few "best cases" provides tangible perspectives on general impressions of achievement and impact, which were gathered by the evaluation team during the course of its field survey. Such cases also facilitate comparisons with the accomplishments of other private sector projects funded by USAID.

C. BACKGROUND TO THE FINANCIAL PROJECTS: Constraints to Growth of Private Sector Productive Enterprise in the Caribbean

The nations of the OECS are all characterized by a number of factors which have constituted obstacles to economic growth and development. These factors include:

1. A lack of scale economies in production and distribution of goods and services;
2. A lack of skilled labor for the industrial sector;
3. Poorly developed money and capital markets;
4. Underdeveloped industrial infrastructure;
5. Prevailing fiscal and economic policies; and
6. Deficiencies within the local private sector itself.

Each of these constraining factors is discussed in turn immediately below; the efforts of the donor community to address these constraints are described in section D, below.

1. Lack of Scale Economies

The small size of the island states in the Eastern Caribbean, geographically and demographically, represents probably the most serious constraint to the development of industry, and scale is a major factor in most of the other constraints faced by Caribbean businesses as well. The availability of natural resource inputs for production is limited absolutely - there is a narrow range of natural resources available within the Caribbean, and most raw material inputs must be imported from overseas. The size of the domestic markets for industrial products is similarly limited. In order to achieve scale economies in industrial production, it is often necessary to rely on export markets. The small scale of the islands also tends to limit investment in infrastructure such as transport and storage facilities. Donor assistance can do little to alleviate the fundamental lack of scale in Caribbean countries.

2. Labor Markets

The nature of the labor markets and quality and cost of labor appears to be another constraint that confronts the productive private sector in the Caribbean. It should be understood that Caribbean countries are still in the relatively early stages of making the transition from agrarian to industrial economies. The labor market in many respects reflects the problems inherent in such a transition. There is a relatively large pool of unskilled labor which has not hitherto been exposed to the ethos or functioning of industrial systems. The existence of such a pool of labor theoretically should create opportunities for investments associated with the early and simpler stages of industrialization (utilizing low labor costs with labor intensive production methods). However, the level of education and sophistication of the Caribbean labor force, the perceived opportunities for employment overseas and/or within the high-paying local tourist industry, and the historical strength of the labor movement in the region have all contributed to the prevalence of higher wages in the English speaking Caribbean than those prevailing elsewhere in the developing world.

The transition to industrial economies also makes mandatory the need for systematic training in all aspects of industrial organization and behavior. Training facilities are generally at the embryonic stage and are not equipped to accommodate the scope of training and retraining such as would match the supply of shills with demand as it evolves. On balance, however, given the achievements of the education system in most islands of the Caribbean, the availability of an adequate supply of trainable labor is not an insurmountable barrier in the way of private sector growth. Donor resources have often been applied to training and technical assistance schemes to improve labor skills and increase productivity and management efficiency.

3. Money and Capital Markets

The growth of private enterprises also appears to be constrained by the operation of certain structural and operational factors prevalent in the Caribbean. Of paramount consideration is the fact that money and capital markets are not fully developed. Enterprises in consequence have to rely on commercial and local development banks for their source of venture, working and long term capital and they face major difficulties in this regard because of credit worthiness and risk-related problems. Additionally, it would appear that banks in the Region have historically provided short term financing but have been reluctant to provide long term credit to businesses. The donor community has therefore concentrated heavily on this constraint, as one which it can relieve readily and directly.

4. Industrial Infrastructure

The relative underdevelopment of the industrial infrastructure in Caribbean countries also serves as a break on private expansion. There is, indeed, no technological infrastructure capable of facilitating indigenous product development, design improvements and other such process changes that are usually necessary to spur industrial growth. In some countries, the availability of factory space may have been (and may still be) a limiting factor, so is the quality of the basic infrastructural facilities as telecommunications, roads, and ports.

5. Fiscal and Economic Policies

The private sectors in most East Caribbean countries operate under fiscal regimes which will offer a variety of incentives and other supports designed to shore up profitability, reduce operating expenses and provide protection against competition from extra regional entities. It may be argued that the existing regime is useful in facilitating the emergence of enterprises, but much less helpful in sustaining them over the long term. For there is a characteristic lack of incentives for business activities such as market development, technological innovation, product development and diversification.

There is no clear consensus as to the optimal fiscal and economic policies for growth and development. However, there have been competing schools of thought on economic development strategy, and a noticeable shift in emphasis over time between them. There is a school of thought which considers that development may best be achieved by recourse to interventionist policies which systematically guide the economies toward desired socioeconomic goals. This approach was popular in the Caribbean during most of the 1970s, and usually placed an emphasis on the following economic policies :

- The pursuit of domestic and regional import substitution to encourage industrialization and the forging of backward and forward linkages between domestic enterprises and sectors in pursuit of increased domestic value added per unit of economic activity;

- The reordering of trade pacts and trade arrangements to mitigate the impact of adverse terms of trade on the domestic economy.

- The recourse to price and exchange controls to influence trade flows and commercial development.

- Control of the scope of operation of foreign capital and in some cases, the demarcation of certain strategic sectors of the economy as special areas for local or public sector investment.

The above policies, however, in many cases led to disappointing economic results, with growing budget and balance of payments deficits, and shortages of investment resources and foreign exchange needed for new investment and growth.

A competing school of thought, in which interest has been growing during the 1980s, purports that Caribbean economies need to undergo systematic structural adjustment in order to attain a sustainable growth path. Within this approach, emphasis is usually accorded to the following policy elements:

- The establishment of a competitive exchange rate regime to encourage exports and avoid encouraging imports.

- Wage restraint policies to keep wage and salary increases within the limit of productivity gains.

- The removal of subsidies, protective devices and other economic props which support uneconomic enterprises long after any justification can be advanced for their continued existence.

- Careful management of fiscal deficits to prevent such deficits from adversely affecting the balance of payments or negatively affecting the private sector access to credit.

- Restraint on the growth of public enterprises and the reduction or removal of public subsidies to such enterprises.

- The privatization of such public enterprises that operate in areas which can be more efficiently left to the operation of regulated private sector corporations.

- A removal of barriers to the flow of trade and capital.

- The maintenance of an interest rate regime that can stem the flow of capital and steer financial resources into high-yield activities.

Government regulations in most Caribbean countries in the 1980s, on balance, are intended to be conducive to the expansion of private sector activities. Except in a few instances, there is evidence of a clear policy commitment to private sector-led export development. In some countries, however, the scope for full fledged private sector development is reduced by the effect of regulations meant to protect certain critical parts of the economies. In this regard, much use is generally made of exchange controls and import licensing regulations to protect the balance of payments. These can have negative impact on the flow of capital and trade. Also, there are stated limitations in some countries on access by foreigners to domestic credit and real estate. Some areas of the economy are earmarked exclusively for local investment, and in most countries there is active involvement by the state in selected sectors, particularly the utilities.

In the final analysis, the expansion of private enterprise in the region can probably be most easily achieved through the penetration of a wider range of export markets than is presently the case. Formidable difficulties however stand in the way of such developments. High levels of tariff and non tariff protection in most Caribbean countries predispose industry to producing for the local market which is in any event generally too small to support but a limited range of enterprises. In a nutshell, the market problem which faces private enterprises in the Caribbean is one in which the domestic market, seen either in national or regional terms, is too small to allow for scale economies. There is in consequence a tendency for producers to be rendered uncompetitive relative to other larger developing countries in most lines of industrial activities. This pattern is reinforced by the fact of higher real wages in the Caribbean, overvalued currencies and the diseconomies which ensure for the widespread practice of domestic and regional protection.

6. Lack of Development of Private Sector Institutions

Perhaps the most pervasive constraint to increasing the pace of development may well be the nature of the private sector itself. The Caribbean appears to lacks a well developed industrial class, accustomed to bearing risk and familiar with the techniques of technological development and application. This may be so, because private enterprise in the Region has been concentrated on a narrow range of areas (export of traditional agricultural crops, and importation of consumer goods) in which they have enjoyed relative market security as a result of either official protection or monopoly status. Few public companies exist, and there appears to be a marked disinclination on the part of existing enterprises to venture into new spheres of activity. Additionally, many entrepreneurs appear to lack of the basic investment prerequisites which are required to make projects bankable. Constraints reported by financiers in this respect have included 1) a lack of sound business proposals, 2) lack of equity financing, 3) lack of entrepreneurial and management skills, and 4) a lack of rudimentary accounting and costing systems. The development of the institutional capabilities of the private sector itself stands out as the basic precondition for the sector playing an enlarged role in economic expansion. In this area, RDO/C may be considered a leader within the donor community in its efforts to promote the improvement in the capabilities of the indigenous private sector directly.

D. PATTERNS OF DONOR RESPONSE OVER TIME

RDO/C began a significant shift into projects devoted to developing the private sector in the Caribbean in the late 1970s. At first, these projects worked through public sector and multinational agencies such as the CDB. The Employment Investment II project was intended to channel loan funds through public sector Development Finance Corporations in each country (or, alternatively, through commercial banks) to small and medium scale businesses. The project also provided financing for the construction of publicly owned factory shells which would be rented to private sector firms (see Chapter IV). EIP II was similar to other projects funded by RDO/C, such as the Regional Agribusiness Development Project, which was also implemented by the CDB and DFCs.

The Project Development Assistance Project, (PDAP) was created to provide consultants as business advisors to governments and businesses in the region, and as promoters of foreign private investment in order to increase employment and exports.

The Caribbean Project Development Facility was created in response to a Task Force on Private Sector Activities sponsored by the Caribbean Group for Cooperation in Economic Development (CGCED) financed by the UNDP and the CDB. The task force report asserted that there were significant untapped investment opportunities in Caribbean, and recommended, inter alia, that a project development facility be created to assist entrepreneurs in identifying, developing and presenting sound business ideas for financing. The facility, however, would be established in and operated by an international agency, the IFC (See Chapter V).

The next step into the private sector approach was to channel USAID private sector funds through private sector institutions. One of the first RDO/C private sector projects of this sort provided financial and technical assistance to the revitalization of the Caribbean Association of Industry and Commerce (CAIC), which commenced in 1980. This project featured the formation of a close relationship between RDO/C and key members of the Caribbean business leadership to promote private sector growth through private sector mechanisms. Through CAIC, RDO/C supported national and regional lobbying efforts to foster economic policies more conducive to investment, employment creation, and exports; supported the development of private sector institutions at the national and regional levels; and provided a channel for private-sector oriented training and technical assistance for Caribbean firms (see LBII's 1987 CAIC evaluation report).

Working with the leadership of CAIC, RDO/C explored the possibilities of revitalizing the Caribbean Investment Corporation (CIC) as a channel for private sector development finance in the region. The CIC was a moribund development bank, formed as a 60%-40% joint venture between Caribbean governments and the private sector. After exploring the possibilities for revitalizing the CIC under private sector ownership, CAIC and RDO/C opted instead for creating a new private sector institution, the Caribbean Financial Services Corporation, which would be privately owned and controlled, and would channel USAID loan funds into new business investments in the region (see Chapter II).

As a second private sector institution, RDO/C designed the Infrastructure for Productive Investment Project (IPIP), which was to be a private sector response to the perceived need for industrial space for foreign investment in the region. The previously initiated PDAP program had identified a chronic shortage of factory space for foreign investors, and had noted that publicly owned space could not be expanded with sufficient speed and efficiency to meet foreign demand. A private sector mechanism, it was presumed, would be more responsive and would also be price competitive (see Chapter III).

This evaluation report focuses on four of the private sector oriented projects - CFSC, IPIP, EIP II and CPDF, and discusses their contribution to the RDO/C private sector program. The final chapter of the report contains some lessons learned and recommendations for the future of the private sector program.

CHAPTER TWO: CARIBBEAN FINANCIAL SERVICES CORPORATION

A. INTRODUCTION

CFSC is among the most successful of RDO/C's projects. Its achievements, measured in terms of total investment, employment and foreign exchange earnings are commendable. Involvement of private sector leaders in the design and implementation of the project is also exemplary. Despite these successes, flaws in project design have limited its stimulus to mobilization of local resources for development and have resulted in unnecessary foreign exchange exposure. Furthermore, objectives for development of other financial services poorly defined in the original paper have not yet been clarified. Continued diligent efforts will undoubtedly consolidate project achievements, but these deficiencies and CFSC reluctance to significantly expand staffing levels could impair realization of even greater project potential. A joint CFSC Board of Directors/RDO/C review of this evaluation will provide a good opportunity to reassess project targets.

This chapter describes the Caribbean Financial Services Corporation. The introduction describes the background to the project, its goals and purposes, the project design and strategy. Part B describes implementation of the project, its outputs, achievements and impact. Part C applies the Generic Scope of Work to the Project, and Part D contains the evaluation findings and conclusions.

1. Background

The project to create a Caribbean Financial Services Corporation grew out of RDO/C discussions with regional business leaders in an effort to respond to the needs of private sector businesses for long term investment finance and other financial services. Neither the commercial banks nor other development finance institutions were seen to be meeting these requirements. Efforts to revitalize and privatize the Caribbean Investment Corporation had been unsuccessful, so it was decided to create a new financial institution to provide creative, private sector development finance.

2. Project Purposes and Goals

The purpose of the project is to establish a private development finance institution to provide term financing and non-traditional financial services to private sector enterprises in the English-speaking Caribbean.

The goal of the Project is to stimulate expansion of the productive sector, creating employment, income and foreign exchange earnings.

3. Project design

The key element of the project was to be the establishment of the Caribbean Financial Services Corporation (CFSC), to be created by legislation giving it special status as an offshore financial institution and tax exemptions. An investor group of development minded, private sector companies and individuals would be joined by multinational financial institutions in subscribing an initial capital of US$ 2 million, (later increased to $3,012,500 through the addition of other development finance companies to the shareholder group).

The equity input was to be stimulated by establishment of an AID loan commitment in an original amount of $8,000,000, (now $14,835,000). These funds, made available at concessional rates for up to twenty years, would fund development of new financial services, discounting of loans made by commercial banks and new term loans by CFSC. A companion $400,000 grant was to be used for start-up expenses, evaluations and technical assistance. The agreement also calls for the establishment of an interest-bearing escrow account--termed a Risk Minimization Fund--to protect USAID against possible devaluations and loan losses.

The Project Paper envisioned lending of three kinds:

a) discount of commercial bank loans. It was thought that funding the commercial bank loan portfolios by discounting their existing loans would relieve liquidity problems which existed in some countries and encourage banks to cooperate with CFSC objectives. The discount plan had the additional advantage of quickly generating a base of earning assets to cover the costs of developing higher-risk, more complex loans direct to projects. The discounts would be relatively low-risk, for they would be made with recourse to the banks.

b) funds to support development of other financial services such as leasing, factoring, and equity financing. These services were recognized as being difficult and costly to develop, hence implementation was to be deferred until the third year of operation. The Project Paper did not specify what these services would be, although it did contain an illustrative list of some provided in other financial markets which might be applicable. The Project Agreement does not identify the services either, but requires that $1 million in assets be used for this purpose at the end of year four; at year 10 this usage is to represent a third of new business (not defined but presumably loan volume) and 16 % of assets. Being very precise about dollar amounts to be used did not remedy the failure to clarify the objectives of this activity. This would have been an opportunity to elaborate upon CFSC's potential role in stimulating the development of new financial techniques and instruments to deepen and broaden regional financial markets. The impact of such innovation could in the long run be far greater than the dollar for dollar relending of USAID funds.

c) direct lending to productive projects.

The financial services were to be made available to privately owned manufacturing, agro-industrial and tourism companies as well as service companies substantially benefitting those categories. Preference was to be given to those projects generating increased overall employment and foreign exchange earnings, with special consideration for employment of women and unskilled workers, the level of domestic value added and geographic location. However, these objectives were to be consistent with CFSC's own policies regarding asset diversification, risk levels and return on equity.

The principal output of the Project would be the loan portfolio itself, representing projects with the desired characteristics that had been identified, developed and brought to fruition. A new, well-administered privately-owned financial institution would be created, providing a variety of innovative financial services with both development and profit objectives. The target portfolio itself would be easily measured, and was planned to be $10,356,000 at the end of the third year.

B. CFSC IMPLEMENTATION

1. Project Establishment and Use of Funds

The CFSC project was approved on July 28, 1983. There were some organizational delays, including the requirement for enabling legislation in Barbados, but a Managing Director was hired in December, 1983, operations begun, and the first loan was disbursed in August, 1984.

AID FUNDING. The project was initially expected to disburse $6,000,000 in USAID loan funds, but was increased to $8,000,000 during the planning process. It was later augmented to $17,355,000 in two steps, then reduced to the present $14,855,000 level when Congressional cutbacks required reallocations and lack of demand for discount lending was recognized.

According to CFSC financial statements, disbursement of AID loan funds to CFSC totalled $4,295,000 as of June 30, 1987, which is 29 % of the adjusted commitment scheduled to expire 12/31/89. The MACS system operated by RDO/C Comptrollers shows a total loan disbursement of only $4,045,000 as at July 31, 1987. The Project Status Report for June 30, 1987 gives "accrued loan expenditures" as $4,800,000, which is somewhat misleading and does not reconcile with the previous report.

In any case, failure to meet the anticipated disbursement targets resulted primarily from a lack of demand for discount lending, which is discussed is the section dealing with weaknesses in project design. Project performance compared to Project Paper plan has considerably exceeded expectations in the direct lending category:

CUMULATIVE LOAN TOTALS
(US$ 000's)

LOANS:	1st yr Plan	1st yr Actual	2nd yr Plan	2nd yr Actual	3rd yr Plan	3rd yr Actual	Plan % Achieved
Direct	600	1,739	2,430	3,785	4,408	6,091	150
Fin Services	0	0	0	0	500	0	0
Discount	2,000	0	4,370	0	5,451	0	0
TOTAL	2,600	1,739	6,800	3,785	10,356	6,091	59%

Other operational measures include:

DIRECT LOAN VOLUMES:
(US$ 000's)

CFSC Year	Number	Total Amount	Average Amount
84/85	9	2,020	224
85/86	10	2,679	268
86/87	10	2,315	231

Geographic and industry distribution have been achieved as follows:

GEOGRAPHIC DISTRIBUTION
June 30, 1987
(US$ 000's)

COUNTRY	LOANS	COMMITMENTS	TOTAL	% OF TOTAL	NUMBER OF LOANS
Antigua	1290	0	1290	19	6
Barbados	623	152	775	11	6
Belize	394	6	400	6	1
Grenada	1375	100	1475	22	4
Guyana	342	0	342	5	2
St.Kitts	545	0	545	8	2
St.Lucia	1421	0	1412	21	6
Dominica	140	250	390	6	2
St. Vincent	102	48	150	2	1
TOTALS	6232	556	6788	100	30

INDUSTRY PROFILE
June 30, 1987
(US$ 000's)

INDUSTRY	LOANS	COMMITMENTS	TOTAL	% OF TOTAL	NUMBER OF LOANS
Agro Industry	1200	0	1200	18	5
Manufacturing	1433	400	1833	27	9
Industry other	844	2	846	12	6
Tourism	2755	154	2909	43	10
TOTALS	6232	556	6788	100	30

Using a somewhat different industry definition (basically including a marine services group separate from tourism) provides another interesting measure. The industry distribution of the jobs that will have been created when the effect of loans approved to date is achieved (within about a year) is as follows:

INDUSTRY:	% OF TOTAL JOBS CREATED:	% OF LOANS:
Hotel and tourism	33	28
Manufacturing	24	35
Export of Labor services (electronics, data entry)	21	6
Construction/equipment	10	10
Agroindustry/fishing	6	9
Marine services	6	12
	100%	100%

BORROWER SIZE: Most of CFSC's loans have been to small and medium size companies. The average number of employees in borrowing companies is 58; the mean, 40. The largest company has 154 employees; the smallest, 4. Nine of a total of 32 projects financed employ 25 workers or less.

Average total assets of the sample group of companies was $1,311,000 per company; the smallest borrower had assets of $255,000. Sales reported by the sample group averaged $1,477,000/company/ year. (See Appendix B.6 for a description of the index sample.)

DEVELOPMENT CHARACTERISTICS OF LOANS: About one third of the loans have been made to start-up operations. Most of the projects financed had been unable to borrow from commercial banks. Probably one half of the projects funded would not have gone forward without CFSC assistance, although this is difficult to judge precisely.

U.S. EXPORTS: The project has stimulated U.S. exports of $1,235,547 (see source and Origin Summary, Appendix B.4).

INTEREST RATE policy, after much debate by the Directors, has been to charge all borrowers the same rate without regard to differential risk or prevailing level of local interest rates. The common rate was 11% initially, and is now 10.5%. The rationale is that for a regional project to attempt to assess interest rates truly reflective of differential project risk in each island nation would result in practical political problems.

In a recent shareholder's review of operations, the IFC has suggested that this policy be reviewed, given consideration to charging rates which reflect conditions in each market, which vary considerably throughout the region.

OTHER FINANCIAL SERVICES: CFSC has not conducted a systematic study of the opportunities and prospects for the development of a wide range of activities which have been lumped under the category "Other Financial Services". Nevertheless, it is clear that development of a financial service new to a market can be both costly and a major drain on scarce management time, which is particularly onerous given the small scale of CFSC operations. CFSC directors have preferred to avoid the expense, risk and time involved in developing other financial services at this stage of CFSC's growth. However, CFSC has recently participated in the organization and establishment of a stock exchange in Barbados. It has a seat on the exchange and brokers on behalf of its clients. CFSC management has a number of ideas for other services, but none of these have been developed to date.

Both IFC and CDC want CFSC to provide equity financing, and will no doubt provide guidance based upon their own successful experience in this area. It has also been suggested that CFSC take a more active role in project identification and development in addition to its financing role. Still, most potential services involve relending of international donor funding, rather than development of indigenous funding sources. Further comment and suggestions on this potential are offered in the conclusions and recommendations of this Chapter.

USAID GRANT FUNDS for CFSC totalling $400,000 were intended to be used as follows:

Executive search	$ 25,000
Project coordination	40,000
Systems development	60,000
Market development	120,000
External evaluations	108,000
Inflation on the above	47,000
Total	$400,000

Only $35,654 has been used, for evaluations. No expenditures were made on executive search or interim management; the directors preferred to identify the candidates themselves and not start operations until a permanent managing director was contracted. CFSC has funded two technical assistance consultancies from International Executive Service Corps for projects under consideration. Reimbursement from USAID has not yet been requested.

Due to lack of utilization, $200,000 of the grant has been deobligated. Plans have not yet been finalized for the remaining balance, but it is expected that it will be used for further technical assistance for sub-projects and development of other financial services.

2. <u>CFSC Operations</u>

DIRECTORS: In addition to directors from the region, board membership now includes representatives of the International Finance Corporation, Commonwealth Development Corporation, and DEG German Finance Company. Their international development finance experience provides valuable perspective gained from development finance projects in the region and elsewhere.
The directors from the region are distinguished business leaders of unusual accomplishment, and bring experience and market information which is especially valuable. The success of the project is due in large part to their willingness to devote considerable time to CFSC affairs. Far more than is customary in organizations of this kind, they are constructively involved in policy formulation, individual project assessment and loan decisions.

These regional directors were instrumental in the decision to establish CFSC, the design of the project, and in convincing regional and international companies and banks to subscribe to its initial share offering. During the capital raising process they were repeatedly confronted with the negative experience that investors--particularly the international banks--had with ADELA. (That development finance company for Latin America was sponsored by blue chip multinational and Latin American industrial companies and funded by international commercial banks. Despite its achievements and the commitment of those prestigious organizations, ADELA has been a financial failure, largely due to illiquid equity investments and inability of sub-borrowers to service hard-currency debt obligations after devaluation. ADELA is now being wound down.) These regional directors of CFSC have made strong personal commitments to the success of CFSC, vowing to establish a sustainable enterprise, avoiding the mistakes and excesses that have plagued similar ventures in the region and elsewhere.

MANAGEMENT: CFSC staff is small but well qualified. The Managing Director is Mr. David DaCosta, a 43 year-old Barbadian. He was educated in Barbados and Canada, where he also worked for a brokerage and investment banking firm, before eventually joining the Chase Manhattan Bank in Barbados. There he worked in account management and served as country and branch manager until his appointment to CFSC. Hazel Highland, project officer, has an

MBA from Long Island University in New York, and acquired project assessment experience with the Barbados Development Bank. Marcel Correia, the secretary/ administrative assistant, will be joined this month by an accounting manager, which will round out the staff complement originally envisaged for the start-up phase. The Project Paper planned staff of seven at this stage in the calendar if not size of project development.

The management team is highly skilled and dedicated to its work, showing a high degree of personal commitment to creation of a successful enterprise. There is a close and productive working relationship with the Board and its Chairman. Still, it seems unlikely that staffing will be sufficient to successfully disburse all of the AID funds committed and at the same time achieve the various other project objectives. Development of other financial services for CFSC and the markets as a whole is demanding of time and experience. Considerable management time will be required to assess and monitor the equity investments which IFC and CDC would like to see become an integral part of CFSC activity. Continuing the trend toward financing of an increased number of start-up projects is also time demanding, not to mention the attention required by troubled loans which are sure to develop. The stock brokerage function alone is observed to consume a lot of time. As an AID-funded activity, adequate time must be reserved for reporting and interaction with AID project management, a legitimate requirement but one that would not be necessary in the normal course of private sector business.

There are no formulas or easy measures of the time required to execute tasks as complex and diverse as these, but in the experience of the evaluation team, as managers or directors of similar projects, it will be difficult if not impossible to meet all of these various objectives without more, senior staff. Indeed, complete disbursement of obligated AID funds will be a challenge: the volume of sub-loans disbursed in each of the previous three years will have to be increased by 70%. Experience is that the number of eligible projects is limited, and vigorous business development efforts will be required to insure an adequate supply.

OPERATIONS: During CFSC's three year operating history, general lending and operating policies have been developed and operating targets established. The Board, which heretofore has met three times a year, will now meet quarterly; the loan committee is convened as required. Annual budgets and quarterly progress reports are submitted to the Board. The credit process is thorough and complete; staff analyses are of excellent quality, but even so are subjected to careful scrutiny by board members, who retain full and active responsibility for credit decisions. Loans appear to be carefully monitored through visits and telephone calls. The recent commitment to formalize this process with at least annual account reviews presented to the Board will help to insure discipline in recording the results of ongoing contacts. Presentations are of good quality, and along with the files, meet or exceed the standards set by first class financial institutions.

A representative sample of these reports and credit assessments are included as Appendix B.7. This appendix is recommended reading to gain an insight into the quality and depth of CFSC analysis.

PROFITABILITY is modest, despite strict cost control, and is a function of the slow growth of assets. Budgeted operating expenses this year ($265,000) are only 50% of the level expected in the Project Paper. Return on assets is expected to improve next year to 2.25% from the present level of 1.71%; this will be acceptable--but not exceptional-- performance considering the risk involved and the size of the interest rate subsidy. Return on equity is planned to improve from 3.95% to something over 7%, but is still only about half of the medium term targets set by CFSC itself, and nowhere near the 34% somehow assumed in the Project Paper. The Company is considerably overcapitalized for this volume of lending; liabilities three to four times the present level could easily be supported and would be well within Project Agreement covenants. The investment in CFSC is 50% greater than originally anticipated as the result of involvement of the official development finance agencies, and it will take some time to adequately leverage these funds.

QUALITY OF LOAN PORTFOLIO seems to be good and results from the careful loan approval process described above. Interest arrears at June 30th were $148,000, mostly from start-up projects; overdue principal was less than $5,000. (See details of arrearages in Appendix B.8). These numbers are not worrisome at this time, although--as could be expected with a target customer group of this kind--some weaknesses are beginning to show and the first specific reserve may soon be established. The portfolio has not yet been tested by time, recession, or devaluation.

COMPLIANCE WITH AID REQUIREMENTS. In conducting an impact evaluation, operations have been reviewed generally, but rigorous audit procedures were not followed, nor was compliance with other detailed requirements investigated in any systematic way. Nevertheless, one apparent deviation from the Project Agreement was observed.

The Project Agreement specifies that no more than 15 % of equity may be loaned to any one borrower, which imposes a ceiling on loan amount of $465,000 (or $483,346 if retained earnings are included in the definition). Notwithstanding, loans have been granted to Copra Manufacturer's Ltd. for $350,000 and to its wholly owned subsidiary, Caricom Marketing Ltd., for $375,000, a combined total of $725,000. The usual regulatory practice in the U.S. is to include loans to wholly-owned subsidiaries in calculating this exposure limitation. Further justification for considering the loans jointly in this instance is the considerable interdependence in the operations of the two companies. The Agreement does not contain a detailed definition of this restriction, but it would appear that these loans violate the spirit if not the letter of this provision intended to limit concentration of risk.

3. Difficulties Encountered in Project Implementation

The principal difficulty in meeting loan objectives appears to have been a lack of demand; there is reportedly a limited supply of good projects in the region. Regional market problems and failure of expectations regarding CBI to materialize have restricted expansion plans for most businesses, further diminishing the supply of lending opportunities.

Borrowers are often reluctant to incur the foreign exchange risk of borrowing U.S. dollars from CFSC. Fear of devaluation inhibits borrowing for those projects which don't earn enough foreign exchange or its equivalent to repay hard currencies in the event of devaluation of the currency in which they operate. The reluctance of commercial banks to assume foreign exchange funding risk was the most important factor in the failure of the planned discount program, which was to produce 50% of CFSC loans during the first years of the project.

The diseconomies of the small scale of CFSC operations limit the number of account managers which can be afforded with tight operating and expense control; yet the nature of the projects--especially start-ups by relatively inexperienced borrowers--is extremely time consuming. Small loans to new borrowers are usually more difficult to make and more costly to administer than larger loans to well-established firms.

AID source and origin restrictions are obligatory, but nevertheless their existence restricts demand and adds to the administrative burden.

4. Previous Evaluations

Arthur D. Little, Inc. (ADL) conducted an evaluation of progress toward meeting conditions precedent in early 1984, and then reported on the first year's operations on June 28, 1985. These reports were generally favorable, commending solid management and tight cost control. Loan totals were forecast to reach $12 million by the end of 1987, and hence implicitly that AID funds would be fully utilized, an expectation that has not been fulfilled. A more aggressive marketing effort to insure the flow of lending opportunities was recommended and implemented. Suggestions were also offered for grant utilization, but these have not been acted upon. CFSC management has preferred to avoid spending these funds in the absence of justifiable need. The conservatism of the portfolio was noted, and a plan to establish a $1 million "higher-risk" fund was foreseen. Although lending to riskier start-up projects began in the second year of operations, there was no formal earmarking of funds for this purpose.

5. Overall Project Impact

Project impact is measured by the extent to which the goals of employment, income and foreign exchange savings are achieved. Generally speaking, the Project Paper indicators were not well designed, and the relative significance of macro and micro yardsticks is unclear. At the level of the individual firm it is possible to roughly measure impacts, although accuracy is doubtful. The CFSC loan is often only one of several variables which are changing, and it is problematic to attribute the impact of a change to only one of them. Gross foreign exchange effect can be straightforward, but determining net effect after imports--often more than one step removed-- complicates the calculation, (e.g.tourist hotel revenues).

a. IMPACT OBSERVATIONS. Indices were prepared by the evaluation team to assist in the analysis and to serve as rough indicators for assessment and forecasting, for time did not allow visits to each sub-project. They were constructed based upon review of all sub-loan files, visits to twelve projects, and the selection of 7 particularly representative ones. They are intended to convey a notion of the order of magnitude of CFSC impacts, and are not represented to be a statistically precise series. (See Appendix B.6 for details.)

TOTAL INVESTMENT COST OF CREATING ONE JOB:	$23,031
TOTAL INVESTMENT/CFSC LOAN: (CFSC AVERAGE)	$1.33
CFSC LOANS/PER JOB CREATED:	$17,187
FX IMPACT/PER $ CFSC LOAN:	$1.36
CFSC LOANS/PER $ EMPLOYMENT INCOME GENERATED:	$2.99

b. An IMPACT ASSESSMENT of the loan portfolio at financial year end March 31, 1987 (also deemed to be the end of Project Year III) was prepared using these indices:

PROJECT IMPACT
(US$000's)

PLAN YEAR	PERMANENT JOB YEARS	CONSTRUCTION JOB YEARS	EMPLOY INCOME	NET FX IMPACT	LOANS NEW	INVESTMENT NEW
I	0	52	226	-	2,020	2,687
II	118	68	809	2,747	2,679	3,563
III	156	59	1,448	3,148	2,315	3,079
CUMUL TOTALS	274	179	2,483	8,642	7,014	9,329
PLAN TOTALS YEAR III	2,000	363	6,634	2,719	10,400	18,144

c. VALIDITY OF PROJECT PAPER ASSUMPTIONS: Much of the variation reported above is the result of the considerable difference in loan volumes actually achieved, and that loan discounts were assumed to have the same development impact as direct loans to projects. Some of the difference is due to Project Paper impact assumptions which proved to be more optimistic than the performance estimated by the evaluation team. The bases for other assumed impacts were not well formulated, and leave the impression that they were sometimes created in a very ad hoc way to influence project approval.

Key assumptions included:

- $8,000 total investment cost of creating a job, which contrasted to the $23,031 observed.[1]

- each loan dollar would create investment of $1.75, which assumption appears to fairly describe new projects, but the index, including expansion projects was $1.33 (the index does reflect a high proportion of expansion projects in the early years, and the multiplier will increase as the greater proportion of new projects with higher investment has its effect.)

- Construction jobs created were assumed to be 1/$25,000 of construction expenditures, and these calculated to be 50% of loan amounts. This estimate conformed with the very rough estimates of the evaluation team.

- 34% gross internal rate of return to the project and sub-projects. CFSC return is not anywhere near this rate: less than 7%, but not taxable. No calculation has been made, but by observation the assumption is quite optimistic for subprojects. The evaluation team is not necessarily qualified in this macro-economic cost/benefit analysis which is not a part of the scope of work, but did not think that the CFSC gross internal rate of return would then equate to change in gross domestic product.

- the foreign exchange impact was forecast to be 50% of the investment income based upon gross internal rates as described above generated by CFSC. The basis for this assumption was not stated. The estimated amounts based on the observations of the evaluation team exceed the forecast by a factor of 4.

A recommendation is included that RDO/C should improve these macroeconomic techniques and indicators so that they can serve as a better guide for future project design and monitoring.

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[1] Generalizations of this kind are prone to error in view of the considerable variations between industries and countries. Further inquiry on this point has been made to CDB and BDB, and comment included in Appendix B.6.

d. CFSC IMPACT STATISTICS. In its reports to AID, CFSC includes estimates of job and foreign exchange impact. CFSC estimates the eventual full impact of project implementation once expansion and growth have been achieved. These estimates are of gross rather than net foreign exchange earnings, and are based upon project plans rather than subsequent observations. In several cases of equipment loans to larger hotel projects, rather generous credit has been taken for foreign exchange earnings which have a substantial impact on project totals. For example, CFSC reports foreign exchange effect of $15 million compared to about half that amount estimated by the evaluation index. Other CFSC estimates are more conservative: no job impact is claimed for replacement equipment loans nor for construction impact. CFSC employment average about the same as the evaluator's.

CFSC and RDO/C should jointly review the basis upon which impact estimates are made to insure consistency of future reporting. In the future CFSC could also report actual observed results as a part of the regular annual sub-loan reviews to assist in improving impact evaluations.

e) OTHER DEVELOPMENT BENEFITS of CFSC lending:

- start-up projects received 44 % of total CFSC loan funds representing about a third of the number of CFSC loans; some of these were to first-time entrepreneurs.

- it is estimated that as many as half of all projects financed by CFSC would not have gone forward had these resources not been available.

- CFSC risk evaluation is based upon adequacy of cash flow rather than collateral, the excessive requirements for which in the rest of the banking community may stifle willingness to try something new or at all.

- CFSC describes its risk market niche as being to companies with risk ratings of 6 and 7, those with 8 or higher being commercial bank customers and those in the lower categories either being unable to get credit or supported by special government or multilateral institution funding.

- CFSC has co-financed projects with commercial banks, taking later maturities and second mortgages to encourage their participation.

- Extended CFSC terms were found to be more important to borrowers than the level of interest rates.

f) PROJECT IMPACT ON WOMEN. Two start-up loans were made to women entrepreneurs, and two other women are owner/managers of projects funded by the program.

The percentage of hotel and electronics jobs which are held by women is very high, perhaps more than 80%. Other jobs in manufacturing and agribusiness are held predominantly by men.

Women play key roles in CFSC activities and account for three of the staff of four.

g) SMALL AND LESS ESTABLISHED ENTREPRENEURS are beneficiaries of CFSC activity, although its policies are neutral in this regard. Some critics have charged that CFSC financing is only available to large companies, or the "white establishment" and that it is unwilling to take development risk with less established entrepreneurs. Current loan statistics--probably not widely known--contradict the assertions regarding company size and entrepreneurship, although lending of this kind was not begun until well into the second year after a sound foundation portfolio had been established. Further, CFSC responds that it supports good projects that have reasonable chances of success; that its declared purpose is to promote economic development, jobs and foreign exchange earnings with no intention of supporting special groups. The Project Paper intended that for projects of similar financial risk, "lending decisions will be influenced by other criteria such as employment generation and geographic location. However, the CFSC will explore all potential opportunities, choosing those which fit its own defined parameters concerning deployment of assets, risk levels and return on equity."[2] The position of the CFSC board is that long-term sustainability of projects is the overriding goal and its achievement will have more favorable impact on disadvantaged groups than any unnecessarily risky efforts to redress earlier systemic inequities.

h) MARKET PENETRATION. Awareness of CFSC's existence and the services it provides is not extensive amongst regional firms. LBII's pilot survey of 20 companies in Barbados showed limited name recognition. On the other hand, CFSC is well known amongst commercial banks and development banks and other agencies with which prospective borrowers are likely to be in contact, and these sources of referral have been important and are probably a more productive target than widespread name recognition. Last year more than 40 loan applications were received.

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[2] AID/LAC/P-154 Project Paper, p19.

CFSC regularly meets with industrial and commercial associations to publicize the assistance available. The Directors and management have organized public awareness campaigns, such as a recent one in St. Lucia which included lunches, dinners, cocktail parties, speeches and press conferences with key businessmen and community leaders. These efforts--however worthwhile-- have not resulted in any identifiable new business, nor has advertising. Word of mouth and personal contacts of management and directors still seems to be the most effective publicity.

It could be worthwhile to publish an occasional news letter descriptive of CFSC activities. The letter could serve as a publicity handout as well as a means of improved communication with the shareholders and the development community.

Satisfied customers are a good advertisement, and all of those interviewed gave high marks to CFSC staff and service. Even discounting their praise as the expected comment to make to an impact evaluator, all interviewees seemed genuinely pleased with the assistance received. Factors most often cited were speed of response, flexibility, and reasonable collateral requirements. The ease of doing business with CFSC was often contrasted with the difficulty and bureaucracy encountered in dealing with development banks, even when these had eventually provided funding.

i) PRIVATE SECTOR INVOLVEMENT: The successful involvement of private sector leaders in the design and implementation of the project is a most commendable RDO/C achievement; it is unique in the experience of the evaluation team. The experience and commitment of CFSC Directors have been invaluable resources in the company's development.

AID missions in Central America are considering establishment of a series of similar development finance companies, and it could be very helpful for them to have the benefit of this successful RDO/C experience.

j) SHAREHOLDERS, other than those represented on the Board, have been generally passive in their attitude toward the project. Once having been convinced that the funds would not be squandered, shareholders contributed "conscience money" which they apparently consider to be in the hands of good stewards and that their direct involvement is no longer required. There seems to be little if any pressure from shareholders for return on investment as long as it is neither negative nor embarrassing. The importance of these capital subscriptions--triggered by the AID commitment of funds-- in getting the project started is now history not often recalled.

k) INTERACTION WITH OTHER DEVELOPMENT PROJECTS has been good, although not outstanding. There has been frequent contact and exchange of prospects with IESC, and its advisers have assisted two CFSC projects. CPDF has made numerous referrals, of which three have been approved so far, and CFSC often recommends CPDF project development assistance to applicants needing assistance in documentation of their own proposals. CFSC and CAIC have many board members in common, contributing to information exchange and coordination of policy. The RIG audit has chilled enthusiasm for more extensive cooperation with other AID projects; unwillingness to become involved with HIAMP is probably an example.

l) VISITS TO SUB-PROJECTS. Call reports on team visits to 12 CFSC projects have been prepared and are included as Appendices B-9.a-i. Financials and extensive other background information made available was too voluminous and detailed to include, but these are available at CFSC for inspection.

m) REPRESENTATIVE SAMPLE PROJECT: The Broilerson project is a good example of developmental lending by CFSC. It is a productive combination of resources from this project, CPDF, and CFC, providing technical and financial assistance in support of a small new venture into poultry farming. The government of St. Kitts also cooperated. Various representative analyses, CPDF reports, financials etc. are contained in Appendix B.7. Reading of these reports will give a good appreciation of CFSC's project role.

6. Weaknesses in Project Design

Although the evaluation scope of work focuses on project performance rather than design, a few observations on the latter topic are warranted due to their influence on performance.

The project design ignores two of the most important lessons learned in recent years about development lending:

a) MOBILIZATION OF DOMESTIC RESOURCES. Countries and projects should avoid over-dependence upon external resources for economic development. To maximize the leverage of USAID funds, projects should mobilize local resources such as deposits from insurance companies and pension funds, or the public when possible. Assistance projects should not be wholly dependent upon development agency resources the availability of which may vary considerably from year to year, due to circumstances beyond the control of the beneficiaries. The CFSC project provided the stimulus to raise $800,000 in equity investment from the region, and the additional funds from developed countries, but no further encouragement has been given to developing local funding sources.

The search for other resources has been discouraged by funding so generous that the project has difficulty in absorbing them. Sustainability of the project in the long run will depend upon other funding sources. Their is still an opportunity to encourage their cultivation.

b) FOREIGN EXCHANGE RISK. Unnecessary exposure of development projects to foreign exchange risk should be avoided. External borrowing by projects which do not generate their own foreign exchange resources adds an additional risk element which is usually unwarranted. This basic principle of foreign lending should not be ignored, especially in the light of recent experience with third world currency instability. There are no significant forward exchange markets in the region, and most CFSC sub-projects cannot protect themselves from devaluation. Many would be unable to meet obligations to CFSC (or worse) in the event of a significant currency adjustment.

The willingness of less knowledgeable borrowers to add currency uncertainty to all of the other risks inherent in third world entrepreneurial activity should be of concern to USAID, which by offering the facility assumes a certain moral responsibility for the consequences--good and bad. It will typically be the smallest, most "developmental" borrowers who will suffer, having had no alternative other than to borrow these external funds.

The CFSC project can be redirected to at least moderate this risk by offering some local currency options. CFSC has investigated the possibility of currency swaps, and should be encouraged and assisted in this effort, possibly with central and development banks as the most likely candidates. It also could be helpful to offer a guarantee facility to assist CFSC in raising local currency funding from insurance companies, social security and other public agencies interested in development. IFC has recently offered such a facility, which has the additional benefit of mobilizing local resources.

The evaluation team was unable to locate any specific USAID policy guidance on the above issues, but during the course of the evaluation AID staff brought to our attention two recent evaluations of similar development finance companies which reinforce these views. PRE/I has recognized the business risk inherent in cross currency exposure, and is endeavoring to structure its project assistance to avoid it.

c) RISK MINIMIZATION FUND. The Project Agreement requires establishment of a fund designed to reduce AID loan risk, whether arising from devaluation or credit. Two percent annually of AID loans outstanding is to be paid into a sinking fund, maintained in U.S. dollars and invested in approved financial instruments.

Although the project does not specify the conditions for withdrawals, it is understood that these payments and accumulated interest will be available for meeting CFSC obligations to USAID if unpaid. This is not a foreign exchange hedge or futures contract. but a sinking fund equivalent to loan prepayment. It provides protection only in the sense that the dollars are held in an escrow account and not used for development purposes.
Of course, it is true that to the extent that the fund is not drawn upon, CFSC will have earned the difference between the subsidized loan interest paid to USAID and the market interest rate it earns on investments. This amount (estimated to be $1,885,000, depending upon interest rates earned) could be considered a kind of exchange risk premium or subsidy provided to CFSC.

While the objective of reducing USAID risk is commendable, to do so by reducing funds available for development lending by CFSC is not. The USAID loan to CFSC has a life of 20 years, but after year 16 the development funds blocked in the Risk Minimization Fund would exceed the loan outstanding. From USAID's point of view it would make sense to liquidate the loan at that point, although CFSC would probably prefer to borrow at the subsidized rate and invest tax free at the market!

It seems contradictory (or at least ironic) for USAID to encourage the establishment of a privately owned development finance company to take development risks (demonstrably higher than normal commercial lending risks) which USAID itself is unwilling to incur.

d) DEMAND FORECASTS. The forecast of demand for discount of commercial bank loans was woefully unrealistic. The consequent failure to meet total loan disbursement targets has resulted in needless embarrassment and criticism of project implementation, eroding support for the successful direct lending portion of the project. The draft market survey prepared as background for the Project Paper warned that demand was unlikely to materialize if commercial banks were required to carry the foreign exchange funding risk. For whatever reason, this caveat was not included in the final version of the study. Demand forecasts were not adjusted for this fundamentally different condition.

Unwillingness of the commercial banks to assume this foreign exchange risk accounts for the failure of the discount program. Commercial banks were unwilling to fund their local currency loans with dollars, and in the case of foreign banks, their head offices would not allow it. If they had been willing to, they would have funded their own branches at a lower cost. Inasmuch as most of the commercial banking system is foreign controlled, it is hard to understand why the discount program was thought to be feasible.

e) OTHER FINANCIAL SERVICES. The same ADL market study cited little if any demand for other financial services from CFSC. Nevertheless, a pro forma list of financial services that exist in more developed financial systems that might conceivably find application in the Caribbean was included. This list became an integral part of the Project Paper, and was included in the Project Agreement as a portfolio requirement.

Regrettably, the Project Paper approaches Other Financial Services from the standpoint of generation of assets for CFSC, rather than the larger developmental role which the company might play in the various financial markets in which it operates by creating new instruments or services. Strengthening the financial and capital markets of the region will assist in the mobilization of additional capital vital to the self-sufficient development process, and is probably a more important contribution than the dollar for dollar repass lending of USAID funds. In recognition of the importance of building these financial markets, the Bureau for Private Enterprise has established the Financial Markets Development Program, the financial and technical assistance resources of which could be very useful to CFSC in developing this phase of its activities.

A planned approach to the region's needs for Other Financial Services is required to achieve maximum impact and to avoid scattering resources. Development of even one new financial service to be offered in several different countries with differing market and legal conditions can be a costly and time consuming process requiring considerable financial skill.

The requirement to provide unspecified "other financial services" probably inspired CFSC's entry into the Barbados stock exchange project. Volume on the exchange is limited and usually only two or three issues are traded in the twice-weekly meetings of the exchange. Development of the market will facilitate mobilization of capital, and could eventually contribute to the liquidity of CFSC's planned venture capital investments. Still, it is a very time consuming activity whose developmental impact is not immediate or certain, nor one that would not happen without CFSC involvement. This is not to say that AID nor CFSC should not support stock market development, which is in itself desirable, but perhaps does not justify diverting limited management time from the primary lending objective not yet fully achieved.

Full utilization of USAID funds during the scheduled availability period will require management's undivided attention. Rather than dilute attention to the company's core business in pursuit of multiple objectives, it may be preferable for CFSC to continue concentrating on direct lending, generating a larger base of earning assets. When earnings capacity is further developed (and USAID funds fully disbursed and before reflows become significant), the reaching for the more "developmental" opportunities can be justified, and should be encouraged.

If, on the other hand, the expanded objectives are to be seriously pursued at this time, additional human resources are definitely required. If CFSC earnings do not justify salaries at this time, perhaps grant funds could be used to defray first year salaries.

In any case, this evaluation should provide an opportunity to jointly reassess the priorities with the CFSC Directors and to draw up a plan of action for the next several years.

f) Belize, as an English speaking Caribbean nation and a member of CARICOM, was included in the countries eligible for CFSC lending. However, the distances involved unnecessarily complicate communications, account management and therefore increase the risk inherent in lending there. Both Belize country and ROCAP regional management are presently considering programs similar to CFSC, and perhaps this would be an appropriate time to consider deemphasizing or removing Belize from the mandated geographic scope of CFSC operations.

7. Regional Inspector General's Audit

The exceptional level of commitment and involvement by the regional directors has been described above. Given that background, it is easy to understand the dismay and alienation caused by the Regional Inspector General's 1986 audit, which impugned the integrity of CFSC Directors and was strongly critical of operations and achievements.

After registering protest, management and to a lesser extent the Directors have endeavored to shrug off that criticism, perceiving it as having been unfairly leveled by an inexperienced junior. Nevertheless, the report has been a major irritant that could impair the future success of the project. It has strained AID's relationship with these and other influential representatives of the private sector and conditions their response to further AID initiatives. The flavor of the audit contrasts unfavorably with a recent review of CFSC operations by the IFC (as a shareholder) which offered constructive suggestions and support and tangible assistance in implementing them. The audit itself was perceived by many key members of the CFSC Board and The Caribbean business community to be ideologically motivated and therefore biased in its assessment of the facts. It has polarized positions, and its most unfortunate consequence--notwithstanding concerted RDO/C efforts to defend CFSC from any unwarranted criticism--is to endanger the constructive dialogue which had been achieved.

At this point it may be that nothing can be done to repair any injustice or damage done. The only cure may be the passage of time and renewed efforts and continue cooperation; nevertheless, a review of the possible courses of action is suggested.

8. Different Approaches to Development

The successful involvement of private sector leaders in the design and implementation of the project is a commendable RDO/C achievement already cited above. The directors of CFSC were chosen because of successful private sector experience, interest in regional development, and positions of leadership and influence. They are members of the establishment, so it is not surprising that the project they have helped design and run should reflect traditional establishment views and approaches to economic and social development. It has been noted that in Barbados and the OECS, business leaders generally attach great importance to social and economic development and their role in achieving it.

AID staff have traditionally been oriented to an approach focusing on helping the disadvantaged. If in these two approaches there are not differences as to ends, they do exist with regard to the means. Perhaps for this reason some members of RDO/C staff do not feel entirely comfortable with the CFSC project, notwithstanding its success in achieving significant employment and foreign exchange benefits. This may have been particularly true during the early project stages when efforts to create a sound portfolio might have appeared to be solely in support of well-established businesses and having little developmental impact. This discomfort has been communicated to the Directors in a variety of ways, formally and informally, sometimes unintentionally. Sometimes the messages are mixed. The existence of these different agendas is sometimes the cause of strain and misunderstanding which can be disorienting to those who are only doing what they believe was agreed to, and doing it well.

C. APPLICATION OF GENERIC SCOPE OF WORK

1. Project Design Elements

Contribution to economic and institutional development goals of RDO/C's private sector program (cited in Chapter I.B, above) was to be made by the following purpose elements:

- creating a financial institution to satisfy the need for longer term financial resources.
- encouraging local investment.
- encouraging risk-taking and entrepreneurship.
- substituting imports and increasing exports.

2. Causal Paths

Expansion of the productive sector in the Eastern Caribbean was to create employment, increased income and foreign exchange earnings. A market survey established that the private sector was willing to initiate new ventures or expand existing ones. However, to do so there was a need for additional sources of term financing not provided by existing financial institutions. It was considered that if longer-term funds were made available from private sector sources on a more developmental basis, local entrepreneurs would be encouraged to invest in projects which would contribute to these purposes. Therefore it was planned to encourage establishment of a privately-owned development finance institution by making available long term AID funds at concessional rates.

The purpose and goals of the project will have been achieved when a viable financial institution meeting the long-term credit needs of expanded private enterprise activity has been established and has developed an initial $13 million portfolio of loans to projects which create new employment opportunities and exports.

3. Evaluation evidence

CFSC is now a well established, efficiently managed, financial institution that has provided long-term financial resources to 32 projects. It is well on its way to improved profitability as the present $6,232,000 loan portfolio expands the earning base. Earnings growth can also support development of other financial services, equity investments and increased lending to higher-risk start-up ventures.

This lending activity has encouraged investment and new project development that would not have otherwise taken place: one third of loans are to start-up projects, and perhaps a half of all projects financed would not have been undertaken at all if CFSC funding had not been available. The evaluation team's survey indicates that CFSC lending has a multiplier effect of at least 1.3 times for total investment, ranging up to and in excess of 2 times for new ventures. A total of 453 job years have been created so far, and the foreign exchange impact in the first three years is $8.6 million.

CFSC occupies a unique market niche as a flexible, responsive longer-term lender. Its willingness to base loan decisions on anticipated cash flow rather than restrictive collateral requirements is innovative in the region's financial markets; its willingness to take security positions secondary to that of shorter term lenders is also a positive contribution to project development.

CFSC's has loaned only about 60% of the amount originally envisioned at this stage of the project, and this is because there was no demand for discount loans as had been planned. On the other hand, the direct loan portfolio is 150% of plan. Nevertheless, full usage of obligated funds may not be achieved during the present period of eligibility. Aside from participation in the recently established Barbados Stock Exchange, no new financial services have been developed nor have equity investments been made, although these activities may be initiated when earnings and staff size and experience warrant. CFSC directors have been cautious and prudent in the exercise of their trust, and have largely deferred development of other financial services and equity or venture capital investments until the stability of earnings warrant the higher risks.

D. CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS:

1. CFSC is among the most successful of the private sector projects managed by RDO/C in terms of total investment, employment, net foreign exchange earnings, and prospects for sustainability.

2. The project has been successful because it fulfills a market need for the financial services that CFSC is providing. A key factor in this success has been private sector participation in project design and execution, and the continuing commitment of participating business leaders.

3. The failure to achieve planned loan volume is primarily due to a flawed assessment of demand for discount of commercial bank loans. Nevertheless, a more aggressive CFSC approach might have produced even more direct lending to compensate for the shortfall, albeit with additional risk.

4. It is doubtful that the full amount of the USAID loan funds will be used before the scheduled project completion date if the number of CFSC lending officers is not increased or the requirement to develop other financial services deferred. It

should be noted that CFSC management expresses confidence that the various objectives can be achieved simultaneously.

5. It would be preferable for sub-borrowers which do not earn foreign exchange or its equivalent to borrow local currencies rather than assume foreign exchange risk. If CFSC were encouraged to develop sources of local currency funding for this purpose, the project would add mobilization of domestic resources to the development benefits already being achieved.

6. The atmosphere created by the RIG audit and the existence of different and sometimes conflicting agendas has frustrated realization of a potentially more productive interaction between the project, its Directors and other AID private sector efforts.

RECOMMENDATIONS:

1. CFSC and RDO/C should take the opportunity provided by this evaluation to jointly review project goals and objectives. The amounts and timing of future requirements for AID funds should be assessed, taking into consideration market conditions, plans for development of other financial services, and the constraint imposed by the limited size of CFSC staff and the willingness to expand that staff. A full review of the prospects for Other Financial Services should be conducted; the relative merits of various financial services should be reviewed, and possible additional roles such as project identification or development for CFSC's own account considered. It is suggested that consideration be given to using the resources of PRE's Financial Markets Development Program. It might be concluded that CFSC success would be endangered by attempting too much too soon, if at all. On the other hand the opportunities for additional activities may be found sufficiently attractive to warrant more rapid CFSC expansion.

It is recognized that productive absorption of new staff by a small, tightly-knit organization is easier written about than accomplished. However, without a larger staff it will be difficult to achieve the 70% increase in annual loan volume required to fully use the AID commitment. If at the same time efforts are continued to maintain or increase the number of riskier and more time consuming "developmental" loans as well as to develop Other Financial Services, it is even less likely that the total loan target will be achieved.

This is an opportune time for a realistic mutual reassessment of achievements, goals, objectives and attainable targets. Then commitment of AID funds can be confirmed, funds deobligated if not required, or project completion dates adjusted if necessary.

2. USAID should offer CFSC the alternative of borrowing any local currencies which it might have available as the result of other assistance programs. If no local currencies are available, assistance and encouragement should be provided to CFSC in facilitating currency swaps with the IMF, regional or local central banks, development banks, or other local currency sources. Guarantees for this purpose could be offered, or if necessary, authorization for CFSC to pledge funds borrowed from USAID.

3. Provide guidelines to standardize and simplify CFSC reporting of indicators of project impact which will improve the accuracy of evaluation.

4. Review the problems created by the IG audit for possible corrective action.

5. RDO/C staff should continue to seek opportunities to promote development and reinforce mutual understanding through constructive dialogue with CFSC directors/management.

CHAPTER THREE: INFRASTRUCTURE FOR PRODUCTIVE INVESTMENT PROJECT

A. INTRODUCTION

The IPIP project was designed to provide USAID financing for privately owned and managed industrial estates. The new availability of efficiently operated and managed factory space was expected to relieve a key constraint to foreign and local investment, and to lead to new opportunities for export led growth in employment and income. The perceived space "constraint" was cited as a reason for the disappointing record of the PDAP project (which attempted to promote foreign investment in the region). From the difficulties encountered by PDAP, a demand for space and thus a derived demand for financing for construction of space was inferred, and IPIP was duly designed to meet these expected demands. In fact, those demand assumptions were never tested with any rigor. The failure of IPIP can be attributed largely to that fatally flawed assessment of demand; a feasibility study of industrial real estate development potentials in the Eastern Caribbean could have avoided this faulty assessment and the resulting decision to obligate a large block of funds which was destined never to be used.

This chapter describes the Infrastructure for Productive Investment project (IPIP). The introduction describes the project background and rationale, its goals and purposes, the project design and project strategy. Section B describes the implementation of the project, the conclusions and recommendations of Inspector General audit report, the outputs, achievements, impact, and the difficulties encountered. Section C applies the "Generic Scope of Work" and Section D provides the findings and conclusions. Appendix H contains ECCB's response to the draft evaluation report.

1. Project Background and Rationale

IPIP consisted of financing for the private development of industrial infrastructure assistance, made available through a loan to the Eastern Caribbean Central Bank (ECCB), for the member countries of the Organization of Eastern Caribbean States (OECS: Antigua-Barbuda, St. Kitts-Nevis, Montserrat, Dominica, St. Lucia, St. Vincent, Grenada and The Grenadines). The rationale behind IPIP was that the lack of factory space was a predominant constraint to the expansion of private production in the region. The decision to create IPIP was made in response to four separate but related factors which all seemed to point to a need for more factory space:-

(a) The enactment of the Caribbean Basin Initiative (CBI)

(b) An evaluation of the Employment\Investment Promotion II Project (EIP II) which had provided some publicly owned factory space

(c) The Project Development Assistance Program (PDAP) which encouraged foreign investment in the Caribbean

(d) Other informal demand estimates for factory space.

During the late 1970's it was recognised that the expansion of private production for export offered a strong basis for short and long-term growth for the OECS countries which were all characterized by small domestic markets with limited scope for import substitution. It was also recognised that these countries faced many problems which needed to be addressed in order to realize the potential that exists for growth of export oriented industries. The main problems that were identified, among others, were the scarcity of appropriately structured long-term financing, economic infrastructural weaknesses, limited skilled man-power resources and a scarcity of marketing expertise. It was felt that these problems had frustrated efforts to exploit the opportunities for export development such as those offered by the LOME II Agreement with the European Economic Community. If the problems were not addressed, they would further frustrate efforts to take full advantage of the Caribbean Basin Initiative (CBI). The CBI offered a potential for the development of export-oriented industries by offering favored access to producers for the U.S marketplace. In this respect the project paper specifically stated that:

> With the enactment of the CBI the potential demand for factory space in the region for export-oriented industries has increased significantly. For the member states of the OECS to fully exploit the opportunities of the CBI, this increased demand for factory space must be satisfied as rapidly and as efficiently as possible. Given the many other existing demands on the OECS governments, it is evident that a more active role should be assigned to the private sector to sponsor, finance, develop and operate industrial estates. The proposed project is a critical element in the CBI Implementation Plan and Mission's private sector strategy.[1]

The EIP II loan\grant to the Caribbean Development Bank (CDB) was a principal source of financing for the CDB's Industrial Estates Program which had financed the construction of 400,000 sq. ft of

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[1] Ibid, Pg 2.

factory space in the OECS from 1979 - 1983, providing the physical infrastructure for numerous foreign and domestic investments. The program was evaluated by Arthur D. Little Inc. (ADL) in 1984. Alongside EIP II's achievements, the evaluation identified a number of problems with the CDB program, and, more generally, with publicly-operated industrial estates in the region and with the institutional capabilities of the executing agencies in the OECS states with respect to investment promotion and industrial estates management. The common problems identified, were, inter alia, poor planning and a lack of financial co-ordination, insufficient management, subsidization of industrial floor space rentals and poor indigenous investment promotion and management. The evaluation also identified problems specific to the CDB Industrial Estate Program and concluded specifically that in addition to insufficient financing, the development of industrial infrastructure in the region was also handicapped by cumbersome management procedures. ADL recommended that

> private sector construction of business (by industrialists and developers) should be encouraged and facilitated by providing long-term mortgage financing under the AID/CDB industrial estates program.[2]

USAID recognised that the achievements of the EIP II program were significant but that bottlenecks in its systems of financing, reviews, approvals and construction had resulted in lead times of up to 18 months in the delivery of factory space. The following was stated in the IPIP project paper:-

> To avoid some of the problems identified with the CDB Industrial Estates Program, IPIP will use The ECCB as a means to pass loan funds through commercial banks to finance strictly privately owned industrial estates.[3]

In 1981, a $6.6 million Project Development Assistance Program (PDAP) was initiated to assist the Government and private sector of the Eastern Caribbean to identify, design and implement development projects which promote employment. The project was renewed in 1984 for a further 3 years. It was stated in the IPIP project paper that the investor search elements of the PDAP contract, as of May 31, 1984, assisted with the establishment of some 20 new manufacturing enterprises which were expected to

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[2] Evaluation of the CDB/AID Industrial Estates Program, Arthur D. Little, Inc, July 1984, Pg 8.

[3] Infrastructure for Productive Investment Project Paper, 1984, Pg 2.

employ by December 1985 over 7,000 people in the countries in which PDAP operated (St. Vincent, St Lucia, Dominica, Grenada, St. Kitts/Nevis, Antigua, Montserrat and Belize). It was asserted that particularly as a result of this initial success, the lack of quickly available, suitable factory space had become a major impediment for the establishment of additional private enterprises producing for the export market. The IPIP project paper stated that

> PDAP advisors report numerous lost investment opportunities during the last 2 years because of the lack of immediately available, suitable space. The size, state of repair, and locations of some currently available factory shells cannot satisfactorily accommodate new expanding industry; the region is even at risk of losing several current industrial operations because of unsatisfactory factory space. Related infrastructure is also frequently inadequate. Unreliable electrical power, water and waste disposal, as well as poor access roads limit the types and sizes of industries that could move into many sites; especially inhibiting larger, usually foreign financed operations the proposed IPIP project responds to the present demand for factory space, largely generated by PDAP, and the further demand to be generated by the PDAP II.[4]

Total demand estimates were prepared by RDO/C contractors which employed the projections of OECS government officials, the stated plans of private businessmen and the estimates of PDAP advisors. The demand for 1984 was estimated at 450,000 sq.ft. and for 1985 and 1986 at over 400,000 sq.ft. annually. It was summarized that new resources must be generated to develop over 1 million sq.ft. of new industrial floorspace over the three year period or more than double the space that was developed during the previous five years. The latest CDB plans at the time were to finance an estimated 190,000 sq.ft. in 1984 and 140,000 in 1985 and, assuming that CDB continued financing publicly developed floorspace at its current pace, a deficit of over 600,000 sq.ft. was projected to the end of 1986. The IPIP project was conceived to respond to this projected demand.

2. Project Goals and Purposes

The purpose of the IPIP project has been to provide the physical infrastructure required for expanded private production which would result in increased employment. The goal of the project has been "to increase private, productive employment in the Region".

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[4] Ibid, Pg 2.

3. Project Design

The IPIP project consisted of a $12 million loan to the Eastern Caribbean Central Bank (ECCB) and private equity of $3 million for a total investment of $15 million. Loan funds were to be channelled through the ECCB to Commercial ' ·.iks to fully fund their sub-loans to private developers of industrial estates and individual factory shells which would house primarily export-oriented producers and manufacturers. The ECCB would lend at 6% the commercial bank would sub-lend at 9% and the repayment terms of the ECCB loan would match the repayment term of the commercial bank's sub-loan. Commercial banks were to finance up to 80% of the cost of each sub-project, with the investor providing the other 20% in cash and\or kind. The commercial banks would have been able to fully discount these credits at the ECCB, which would subsequently receive reimbursement from AID. Sub-loans were to be secured to the satisfaction of the commercial banks, who were responsible for repayment in full to the ECCB. The following table summarizes the terms, rates and conditions of IPIP funds at each level of the pipeline.

Summary of IPIP Terms, Rates and Conditions

Borrowers	Term	Interest	Conditions/Observation
Private Investor	Up to 20 years, maximum 3 years grace	10%	Investor provides 20% equity. Sub-loan secured to bank's satisfaction. Sub-loan denominated in US Dollars.
Private Commercial Bank	Up to 20 years, maximum 3 years grace	6%	Sub-loan commercially viable. Discount from ECCB denominated in US Dollars. Discount term matches sub-ıoan term.
ECCB	25 years, including 5 years grace	2% during 3% grace thereafter	AID loan repayable in U.S Dollars

The project was expected to:-

a) finance the construction of an estimated 600,000 sq. ft of privately developed and operated industrial floorspace and supportive infrastructure for new industrial activity throughout the OECS states;

b) provide the employment of at least 4,000 persons;

c) generate a minimum of $200 million in addition export sales from the region;

d) facilitate the introduction of private industrial estate development and management to the region.

The project was intended to enhance significantly the attractiveness of the Eastern Caribbean as an investment host as well as relieve the public sector of a substantial portion of its responsibility for providing industrial floorspace. The eligibility criteria for borrowing IPIP funds as set out in the project paper were as follows:-

a) All public and private commercial banks would be eligible for borrowing and on lending IPIP funds for eligible sub-projects.

b) Eligible sub-projects would include a maximum 80% of the cost of developing individual factory shells and industrial estates (parks). Industrial estates could include factory shells, facilities for services, supportive infrastructure such as waste treatment, water, electricity, etc. as are necessary for the profitable operation of the industrial estate.

c) Developers borrowing IPIP resources would be obliged to contribute a minimum of 20% of the cost of the sub-project (including the feasibility study) as well as satisfy the normal credit eligibility standards of the participating commercial bank.

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

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

There were two fundamental assumptions underlying the IPIP project design. It was assumed, 1) that all the OECS countries were willing to encourage the development of private industrial estates, and 2) that these countries were all willing to reduce the subsidization of rental rates for publicly provided floorspace. The latter assumption was critical, since as was acknowledged in the Project Paper, the feasibility of private industrial estates depended upon the OECS countries increasing the average rental rates by at least 25%.

B. IMPLEMENTATION OF THE PROJECT

The IPIP project was initiated on August 30, 1984 and the anticipated completion date was September 30, 1987. $12 million was obligated by USAID with a further $3 million expected to be supplied by equity capital. The first disbursement under the project was made in January, 1986 and as of July 30, 1987, $1,333,000 in project funds had been disbursed. The IPIP project was administered by ECCB with the help of a personal service contractor (PSC) provided by USAID. The PSC was stationed at the ECCB and was contracted to review the eligibility of application for funding submitted by the commercial banks, to communicate with commercial banks, visit completed estates, and inspect work in progress and completions. Technical assistance was provided by Free Zone Authority (FZA) which was contracted to promote the industrial estates in the USA, and to provide site engineering and assistance and project implementation assistance (pricing policy, lease agreements etc). Consulting Engineering Partnership (CEP) was contracted to assess the building designs. The total cost of the technical assistance provided by USAID to date is approximately $447,000.

It became clear to project management early on that demand for IPIP funds would not reach the volumes anticipated. A series of project design changes were therefore implemented by RDO/C in order to make IPIP funds more attractive: In the first change, implemented November 1984 as a result of a request from the ECCB to USAID, the on-lending rates were reduced from 6% to 5% to the commercial banks and from 10% to 9% to the Borrowers.

On May 14, 1986, the minimum sub-loan amount was reduced from $250,000 to $100,000. The rationale given in the Project Paper for originally fixing a lower limit was to avoid a proliferation of small transactions. However, the demand for large loans to finance the construction of industrial estates did not materialize. It was felt that reduction of the loan limit would stimulate greater interest in the project, especially from local investors. After the reduction went into effect, ECCB indicated that several enquiries had been received from potential owner-occupiers for loans below the revised lower limit of $100,000. To stimulate further interest in the project from local investors, the minimum loan limit was removed on February 20, 1987, by the RDO/C.

The Inspector General Audit Report of October 1986, noted the continuing failure of demand for funds to materialize and recommended that RDO/C use its de-obligation/re-obligation authority to re-program or return to the Treasury not less than $6 million of the $12 million in obligated funds. This recommendation was accepted by the RDO/C and $6 million of the project funds were de-obligated during 1987. At the time when the funds were de-obligated only some $933,000 of project funds had been disbursed.

1. <u>Conclusions and Recommendations of 1986 IG Audit</u>

An audit by the Office of The Regional Inspector General 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. The IG Inspectors visited the RDO/C, the Eastern Caribbean Central Bank and project sites in Antigua and St. Lucia. The IG Inspector reported that after two years of activity only some $800,000 in project funds had been expended and that only 20,000 sq.ft. of a planned total 600,000 sq.ft. in factory shells had been built. The IG audit summarized that "project objectives were not being achieved, implementation had all but come to a halt, and RDO/C management and monitoring were inadequate."[5] The audit report further stated that "much of the planned factory space had not been constructed and there was relatively insignificant demand for more".[6]

The major conclusion drawn by the IG auditors was that project objectives could not be achieved as originally envisioned because the demand for factory space had not reached expected levels and that 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 lending banking practices. The IG auditors found that:-

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[5] Office of the Regional Inspector General Audit Report, Pg. 2

[6] Ibid Pg. 2

a) The rationale for undertaking the project was that the Caribbean Basin Initiative (CBI) would produce a strong demand for factory space. However, expected demand had not materialized and neither the CBI nor general business activity had generated the levels of investment originally anticipated.

b) The viability of the project had been placed in question by Government rental policies. Assurances for reducing or eliminating subsidized rents were not obtained from host country governments, and as was stated in the Project Paper the economic feasibility of private industrial estates was dependent on several factors, including a reduction of subsidized rental space policies. Consequently, demand had continued to decrease because investors could not compete with subsidized rental rates.

c) 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. Further, long term loans were not generally available as had been envisioned. In addition, Commercial Banks had not honored the liberal credit terms projected in the project implementation plan.

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

The auditors concluded that the above illustrated "a lack of good project management, and 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 sq.ft. of factory space being constructed and the remaining funds being unused".

The auditors recommended that RDO/C:-

i) use its de-obligation/re-obligation authority to reprogram or return to the Treasury not less than $6 million of the $12 million in project funds; and

ii) change project design and implementation procedures to address:-

   a) Lessened industrial demand.

b) The need for alternative credit institutions to provide financing at terms acceptable to private investors.

c) The need to obtain assurance from host country government that subsidized rental rates will be reduced or eliminated.

On February 20, 1987, in addition to moving the minimum sub-loan limit, RDO/C eliminated the ceiling on total disbursements for owner-occupier financing and also allowed the ECCB to reduce the on-lending rate by up to 2%. As of October 31, 1986, there were 22 potential sub-projects of which 20 were classified as owner-occupier with projected financing of $5,480,000. There was a greater demand for owner-occupier than had been anticipated. It was therefore decided to remove the ceiling for owner-occupier financing. The Project paper stated:-

> In the event that demand proves seriously weaker or stronger than expected, RDO/C and the ECCB have agreed to modify the interest rate as necessary. In the unlikely event that a lower interest rate becomes necessary, sufficient margin exists with the ECCB to accommodate up to a two point adjustment.[7]

The unlikely situation that was described in the Project Paper materialized and it was felt that a reduction in the ECCB on lending rate to the banks would make the banks more responsive to potential IPIP users. It was felt that the greater spread may also induce the banks to ease burdensome collateral requirements.

2. Project Outputs

Over the three year period August 1984 to August 1987, some 29 sub-projects have been considered by Commercial Banks in the region for funding under the IPIP program, of which 4 have been approved and the funds disbursed by the Eastern Caribbean Central Bank, and 2 have been approved with the funds yet to be disbursed, giving a total of 6 sub-project approvals. The other projects have either been cancelled or rejected by the Commercial Banks or the Eastern Caribbean Central Bank. The geographic distribution of the 29 projects that had sought funding from IPIP, and their outcome as of July 1987, have been as follows:-

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[7] Ibid, Pg 6.

	Approved	Cancelled/ Rejected	Total
Antigua/Barbuda	4	4	8
Dominica		3	3
St. Lucia		6	6
Grenada	1	6	7
St. Kitts/Nevis	1	3	4
St. Vincent		1	1
	6	23	29

Of the 29 projects seeking funding under IPIP, 6 of the proposals were for funds to construct industrial estates for rental and 23 were for owner-occupier factory shells. The major interest for funding under IPIP was shown by local investors requiring funds for owner-occupier shells. Of the 6 projects approved, 5 were owner-occupier and 1 was for a factory shell built for rental.

IPIP performance as compared to the Project Paper plan has been as follows:-

ANTICIPATED/ACTUAL OUTCOMES

	Anticipated	Actual
Funds disbursed ($000):		
Shells for rental	10,000	400
Owner-occupier	2,000	1,333
Total	12,000	1,733
Floor space constructed (sq.ft.)	600,000	74,000
Export sales	$100 million	None
Jobs Created	4,000	150

The projects funded under the project were as follows:-

PROJECTS FUNDED

Borrower	Amount Disbursed	Floor Space (Sq.ft.)	Estimated Total Investment
Disbursed			
Cage Enterprises	400,000	20,000	491,000
LICS Limited	130,000	4,000	300,000
Crabbs Marina/ Ottos Industrial Estates	153,000	-	250,000
Rigid Panel Systems	650,000	32,000	2,200,000
	1,333,000	56,000	3,241,000
Approved			
Issco	250,000	12,000	1,000,000
Ottos Industrial Estates	150,000	6,000	250,000
Total	1,733,000	74,000	4,491,000

The evaluation team visited 5 of the 6 sub-projects receiving funding under the project. The sub-projects visited were LICS Limited, Crabbs Marina/Ottos Industrial Estates (2 sub-projects), Rigid Panel Systems and Issco. The evaluation team also visited 4 applicants who requested funding but were not successful (Winmark Limited, TDS Limited, Union Industrial Park and Grenagro Limited). The projects receiving funding are discussed below.

The ECCB disbursed a $400,000 loan to Barclays Bank, Antigua in January 1986 for construction expenditures by Cage Enterprises for a 20,000 sq.ft. factory shell. Estimated total investment was $491,000. The shell was constructed for rental and 50% of the floor space was rented for approximately six months to Natori Inc., a US lingerie manufacturer. Natori Inc. employed on average 20 workers for the period it was in operation. Natori Inc. closed in November 1986, and the Cage Industry Factory shell has been unoccupied since then. The evaluation team was unable to contact the owners of Cage Industry but understands that they are negotiating the sale of the factory shell to the Government of Antigua, and that no strong prospects for renewed occupancy presently exists.

The ECCB disbursed $130,000 to the Antigua Commercial Bank in November 1986, to fund the construction of a 4,000 sq.ft.

industrial building for Lewis Industrial and Commercial Services Limited (LICS). The operation produces industrial and commercial gases for the Antiguan market and other Leeward island purchasers. Estimated total investment was $300,000. Total employment at the plant is estimated at 10 persons. The operation makes no extra-regional export sales. The Managing Director was pleased with the opportunity offered by the IPIP Project and felt that it was critical in allowing him to set up the operation. He was also of the opinion that the process from loan application to disbursement of funds, which he estimated at approximately 3 months was quite satisfactory.

The ECCB disbursed $650,000 to the Grenada Bank of Commerce in March 1987, to fund the construction expenditures of Rigid Panel Systems Limited for a 32,000 sq.ft. building. The sub-project produces pre-fab housing for the Grenadian market. Estimated total investment was $2.2 million. The plant currently employs 140 full time workers. It is important to note, that funding for this project was approved after the plant was constructed and after the owners had already invested other funds in the sub-project. It is clear therefore, that the owners had alternative source of funding and were not dependent on IPIP to establish the plant in Grenada. Some potential for extra-regional exports exists but at present the operation is producing for the local market.

The ECCB disbursed $153,000 to the Antigua Commercial Bank in November 1986 to finance infrastructural expenditure which included fencing, road clearing, and site preparation at the Ottos Industrial Estates Limited site and the Crabbs Marina site. This sub-project has not led to the creation of any additional employment or any potential for export sales. Estimated total investment was $250,000.

The St. Kitts/Nevis National Bank has agreed to finance up to $250,000 for the building construction cost of a galvanized nail plant to be constructed by Issco Trading Inc. The ECCB approved the IPIP loan for the sub-project in January 1987. Construction of the plant has started, but the funds have not yet been disbursed by the ECCB to the St. Kitts/Nevis National Bank. Estimated total investment will be in the order of $1 million and total employment to be generated is estimated at 25 persons. No estimate of export sales were obtained.

The Antigua Commercial Bank has approved a further loan of $150,000 to Ottos Industrial Estate for the construction of a 6,000 sq.ft. plant. Total estimated investment is $250,000 and it is estimated that the project will lead to the creation of an additional 12 jobs. No export sales will be generated.

3. Evidence of Project Impact

The IPIP Project has contributed to the start of 6 projects involving financing totalling $1.733 million and total investments of about $4.491 million (which in some cases include property acquisition - a transfer of assets and not "investment" in economic terms). It should be noted, however that $400,000 represents funding for a building which is presently unoccupied (Cage Enterprises), and that $650,000 represents funding for a project for which the owner clearly had alternative source (Rigid Panel Systems). The $153,000 disbursed for the Crabbs Marina/Ottos Industrial Estates project was used for infrastructural fencing work and did not contribute to any additional employment or the generation of export sales.

Employment generated by the projects receiving funding under IPIP has been modest, with some 140 jobs being generated by the Rigid Panel Systems sub-project and 10 jobs being generated by the LICS sub-project. In respect of the 2 sub-projects which have been approved, it is estimated that some 37 new jobs will be created.

None of the projects receiving funding under IPIP can be considered to be significant export earners. Some potential exists for export sales by the Issco sub-project and the Rigid Panel Systems sub-project. This potential cannot be quantified at this stage.

4. Difficulties Encountered

The main difficulty encountered by the IPIP Project was the lack of demand for industrial factory space in the OECS countries, particularly at rental rates which would be required to ensure profitability for private investors. Demand for factory space did not materialize as anticipated in the Project Paper, and as a result there was little demand for funds to construct industrial estates for rental to potential US investors.

One of the reasons why demand for funds from foreign investors for industrial estate development did not match expectations appears to be because the expectations with regard to CBI did not materialize and the OECS in particular was not seen to be an attractive offshore base for U.S investors.

Problems such as shortage of skilled labor, lack of technical support services, delays in processing fiscal and investment concessions, and the perceived higher risks in starting operations in a region with no major experience of export based manufacturing also affected the potential demand from foreign investors.

A further difficulty that was encountered was that there appeared to be a lack of enthusiasm on behalf of the Commercial Banks in the region for participation in the IPIP program. The reasons appears to be as follows:-

a) Many of the Commercial Banks in the region were unwilling to assume the foreign exchange risk associated with the loans since the IPIP funds were denominated in US dollars;

b) the timing of the project coincided with a period of excess liquidity in most of the OECS territories, and thus a lack of interest in USAID funds;

c) the project was primarily intended to be a long term credit program with lending terms up to 20 years, but most commercial banks in the region were unwilling to lend any funds beyond 10 years;

d) the project design assumed that the Commercial Banks would be willing to lend up to 80% of the investment cost of the factory shell and would take as collateral security the factory shell building; most Commercial Banks were unwilling to offer such generous credit terms; and

e) the fact that such soft demand was being experienced for factory shell space in the region forced the banks to require firm contracts for industrial floor space before they would consider disbursing funds under the project.

Another difficulty which the IPIP project encountered appears to be the result of additional project design faults with respect to marketing of private floor space to potential US tenants. The project design did not specify how the marketing would be carried out. If direct marketing had to be performed by the developers of the factory shells, the procedure would have been exorbitantly expensive and would have added unduly to the overhead costs of privately developed industrial estates. Furthermore, since PDAP advisors were responsible for the main thrust of investment promotion in the region and were required to work closely with government, it was highly unlikely that PDAP could effectively market private factory shells. This situation was exacerbated since in most OECS states, privately developed factory shells would be competing with the government owned factory shells and the search efforts in each country by governments and PDAP have been concentrated on finding tenants for the government owned factory shells.

Another difficulty that was encountered by IPIP was in relation to the projects submitted by local investors for funding for owner-occupier factory shells. Although the evaluation findings have shown that the demand for funds to construct owner-occupier factory shells was much greater than anticipated (of the 29 applications received, 22 were for owner-occupier factory shells) only 5 had reached the stage where funding was provided. Most of the investors could not access IPIP funding because their projects were not considered bankable.

C. APPLICATION OF GENERIC SCOPE OF WORK

1. Project Design Elements

A general description of the Generic Scope of Work used in LBII's evaluation of RDO/C's private sector projects is contained in Chapter I, Section B.2 above. The goal of the Infrastructure For Productive Investment Project, was to:-

> Increase private productive employment in the region.

This goal statement fits closely the Private Sector Program Economic Development Goal:-

> To increase the contribution of privately owned business establishments and the institutions which serve them to employment, production, productivity, net foreign exchange earnings,and/or improved standards of living in specific Caribbean countries.

Relevant purpose elements associated with IPIP's Economic Development Goal are as follows:-

- To provide factory buildings
- To provide long term financing for businesses
- To improve service or reduce costs of public infrastructure utilized by productive activities
- To attract foreign investment
- To encourage local investment
- To promote exports

2. Causal Paths

The IPIP project design was premised on the following chain of logical steps leading from the provision of USAID resource to the achievement of ultimate economic development goals:

If **long term financing** was made available to private developers, entrepreneurs, and/or speculators for the construction of industrial estates and factory shells in the OECS,

Then an increase the supply of readily available **factory space** would be created in the OECS. The increase in the supply of factory space, developed by private investors who could operate with greater flexibility and efficiency than competing public sector agencies, would **improve the services** associated with factory space and/or reduce the costs of infrastructure utilized by productive activities.

If there was an increased supply of readily available factory space, at lower cost and/or with improved services than those previously available,

Then this space would **attract foreign investment** and **encourage local investment** in the OECS.

If more foreign investments take place in the OECS,

Then the level of **exports** from the region will be increased.

In addition, if more private investments take place in the OECS, along with associated extra-regional exports,

Then these investments will contribute to **increased production, employment** and **income** in the region, and the exports will bring in **increased foreign exchange earnings.**

3. Evaluation Evidence

In fact, the evidence gathered by the evaluation team on the outcome of the IPIP project revealed the following flaws in the above-described project design:

The availability of financing, without addressing other key constraints to industrial estate development, was not sufficient to entice investors to speculate in the construction of factory space in competition with publicly owned and subsidized factory space. Private investors may be more efficient than public agencies in the construction and operation of industrial parks, but such efficiency advantages could not compensate for the level of subsidy for public space, especially taking into account the risks which would have to be assumed by the investors and their bankers.

There was no demand for funds for the development of private industrial estates because potential investors judged that the availability of factory space alone was not sufficient to entice foreign investors into the region. Foreign investors, although they require space, base their investment decisions on a wide variety of factors including labor skills, labor costs, availability of supplies, access to markets, tax incentives, and political stability among others. Addressing a "space constraint" while failing to address other important factors crucial to investment decisions was probably a wasted effort.

Some owner-occupiers did make productive use of IPIP funds, but even among their ranks, IPIP achievements have been meager. The only sub-project to generate significant amounts of employment was the one for which the owner clearly had other sources of funding available. There has been no discernible impact on exports as a result of the IPIP project.

In the final analysis, the IPIP project design fell apart at the first links of the logical chain. Due to a lack of demand for project inputs, the project could not even deliver a significant level of outputs, much less achieve its purposes or goals.

D. FINDINGS AND CONCLUSIONS

On balance, the IPIP project should be judged largely a failure. Of the $12 million originally obligated for the project by USAID, $6 million was de-obligated in 1986 and of the $6 million remaining, $1.3 million has been disbursed with a further $400,000 approved and yet to be disbursed. It seems unlikely that the remaining $4.3 million will be utilized before the PACD of September 30, 1987, and presumably the unutilized balance will be de-obligated shortly after the project completion date. The project was intended to construct 10 industrial estates with an average size of 60,000 sq.ft. or some 600,000 sq.ft. in total over the three year period in order to meet an estimated demand of roughly the same amount over the period. As shown above, only one factory shell was completed for rental and this is unoccupied, and 5 owner-occupier factory shells will be completed under the program providing some 72,000 sq.ft. of factory space. The project was intended to create some 4,000 jobs over the 3 year period, and the best estimates of the evaluation team suggest that a maximum only 150 jobs have been created as a result of the funds expended under the project. The project was also expected to increase export sales from the region by over $1 million per annum. The evaluation findings have shown that the project has had no impact on export sales.

Perhaps the most charitable interpretation that could be accorded to the disappointments of the IPIP project is as follows: Most economies are characterized by business cycles which can alter rapidly the balance between the supply of and demand for factors of production. This is a critical factor in the design of projects such as IPIP which were providing funds to satisfy market deficiencies. This constraint requires that projects are designed to react to the perceived market deficiency promptly and also that sufficient flexibility is built into the project to allow it to respond to unforseen cyclical changes. The failure of the IPIP project is perhaps due in part to flaws in the project design that did not address these factors satisfactorily. IPIP was design on the rationale that the demand for factory floorspace exceeded supply. By the time funds were available, it would appear that this market condition had changed, if it ever existed at all, and the IPIP project was unable to respond effectively to the changed circumstances. Minor project design changes were implemented; these were however implemented too late or there were too minor to impact significantly on the outcome of the project.

Another cyclical factor which impacted on the outcome of the IPIP project was the demand for funds from the commercial banks in the OECS countries. IPIP was implemented during a period of excess liquidity in the banking system in the OECS countries. A minor design change was initiated to address this problem by reducing the rate charged by the ECCB to the commercial banks by 2 % points. Again, however, this response appears to have had very little effect on the outcome of the project.

In the final analysis, there was no evidence to suggest that a private sector response was the most appropriate solution to construct industrial factory shells for rental to satisfy potential excess demand. The IPIP project assumed that the construction of privately developed factory shells would have been the appropriate solution to the perceived OECS investment problem. The project design assumed that foreign investors would be willing to come into a region of unproven industrial experience with unreliable demand estimates and construct factory shells on speculation. This problem was magnified since it was identified that all of the factory shells available in the region were constructed and owned by the respective governments in the regions, and that the rental rates were all subsidized in an attempt to attract foreign investors. Even the Project Paper recognized that in order for the private factory shells to charge a rent that would give an adequate rate of return to the investors, governments in the region would have to increase the rents of their factory shells by at least 25%. Since OECS states are in competition with one another for foreign investment, a reduction in rent subsidies would require a consensus by all the OECS governments to charge an economic rent which has proven difficult to achieve.

The IPIP project was justified primarily on the premise that excess demand for industrial factory space existed in the OECS region which could not be met by the existing public institutions. There is no evidence to suggest that the estimates of industrial demand which form the basis of the project demand were verified by the RDO/C. The evaluation findings suggest that the public institutions in the OECS states have been able to meet the demand for factory shells by foreign investors. In most territories visited by the evaluation team, some unoccupied public factory space was identified.

CHAPTER FOUR: EMPLOYMENT INVESTMENT PROMOTION II

A. INTRODUCTION

The Employment Investment Promotion II project (EIP II), which was carried out by the CDB, utilized loan funds from RDO/C for onlending to national Development Finance Corporations to finance factory shells and industrial credits for small and medium scale firms. The purpose was to stimulate investment by such firms and thereby to increase production and employment in the region. The project funded new floor space in the OECS, much of which is occupied by firms engaged in assembly operations producing for the US export market (many of whom are foreign investors) and who provide employment for over 2000 people. The project also provided funds for industrial credits in the OECS. On the one hand, it appears that such funds are often the only source of financing for small-scale firms, many of which are viable, though often struggling enterprises. On the other hand, many of the subloans financed by EIP II are deeply in arrears, reportedly due to a combination of difficult business conditions and a feeling on the part of borrowers that DFCs are lenient and can therefore be placed low on the list of repayment priorities.

This chapter describes the Employment Investment Promotion II project. The introduction (Section A) describes the background to the project, its goals and purposes, and the project design and strategy. Section B describes the implementation of the Industrial Estates portion of the EIP II project, Section C applies the Generic Scope of Work to the Industrial Estate portion of the project, and Section D presents the evaluation findings and conclusions of the Industrial Estate Portion of the project. Section E describes the implementation of the Industrial Credit portion of the project, summarizes the findings of the 1984 evaluation and describes the impact of the program to date. Section F applies the "Generic Scope of Work" to the Industrial Credit portion of the project, and Section G provides the evaluation findings and conclusions with regard to the Industrial Credit portion of the project.

1. Project Background

An earlier EIP I project had focussed primarily on improving the capabilities of CDB to identify, examine and promote the potential for industrial expansion in the Eastern Caribbean. The project had three components: a Technology Information Unit to collect and disseminate technological processes, a Technology Research Fund to finance appropriate technology projects, and technical assistance to DFCs. The project paper for EIP II, however, described the DFC performance as "generally poor," and noted that only a few operating DFCs appeared capable of supporting well run independent financial institutions. "Even in these, the development of markets would appear to proceed at a pace insufficient to generate income at rates required for commercial viability."

The project paper also noted that past CDB loans for the development of factory space had met with high demand. Of almost 400,000 square feet of factory space constructed previously, only 6,000 square feet in Belize were vacant and uncommitted; there was no space available for immediate occupancy in any of six other countries. The previous industrial estates programs, it was believed, were at least partially responsible for the creation of about 2000 new jobs due to the availability of factory space. On the other hand, the level of subsidy associated with the previously constructed industrial estates was considered unacceptably high. "Most estates charge about $1/sq.ft. for space in factory shells. This price is less than half of the economic cost of the facilities provided. The cost of this subsidy in economic terms is estimated at over $400,000/year."[1]

2. Project Goals and Purposes

The purpose of EIP II was to "stimulate investment in small and medium businesses necessary to increase production and employment in the region." The goal of the project was to "increase employment and increase the income of the poor in the English-speaking Caribbean Region." The end of project status was to include about 1,850 permanent jobs generated by 1983 (not including about 1,000 person years of employment in the construction industries and related indirect jobs), a $14 million increase in investment in the industrial sector of the region, and commitment of $8.4 million in loan funds to industrial projects in the region.

3. Project Design

The EIP II project was to be implemented under the auspices of the Caribbean Development Bank, which received loan funds from USAID of $8.4 million for on-lending (medium and long-term credits) to small and medium sized industry and for industrial estates, and grant funds of $1.4 million for technical assistance to small and medium sized businesses in the region.

Project outputs were to include three to five revitalized DFCs in operation and two to four regional commercial banks operating

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1. Employment Investment Promotion II Project Paper, 1979, Pg. 11.

with EIP II project funds for on-lending for about 150 subloans annually to small and medium businesses, five sub-loans for the development of industrial estates, and 42 person years of technical assistance.

The project paper anticipated that about $4.5 million of the proposed loan funds would be utilized for direct lending activities over a four year period. Medium to long term sub-loans over $100,000 would be made for industrial estates development and projects in the industrial and service sectors, and would finance equipment, construction and permanent working capital. Loans to governments for industrial estates would be made at a rate of 4%; direct industrial lending would be made at commercial rates (then at about 10.5%). Lending would be denominated in US dollars with the borrowers assuming the foreign exchange risk. The project paper also said that:

> the CDB will endeavor to obtain the agreements of Governments to sharply reduce or eliminate the subsidies on industrial estates as soon as possible. The recommended minimum rental rate would be adequate to service the loan debt and maintenance cost.[2]

On-lending activities through DFCs and commercial banks would involve a total of $3.9 million of AID loan funds, which would be specifically directed at providing foreign and local funds in support of the expansion of small and medium sized enterprises. According to the project paper, eligible sub-projects could include a wide variety of informal, small, and medium manufacturing and service enterprises. Either a DFC or a commercial bank would be chosen as the intermediary for the funds in any given country, but only one channel would be chosen, and preference would be given to DFCs over commercial banks (assuming they were determined to be technically and financially sound); it was presumed that, as public institutions, they would be better able to lend to and provide technical assistance to small entrepreneurs who are considered too risky for lending by commercial banks.

The DFCs would borrow from CDB at an interest rate of 4%, repayment period would be 20 years, including five years grace during which interest only would be due. The DFCs would on-lend at non-prime commercial rates (then 10-12%) that were significantly higher than the DFC's usual rate until then, which was 8%. The DFCs would make loans to small businesses (generally, those with under 25 employees, bringing in revenues under $25,000 and/or having fixed assets under $25,000) in

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2. Ibid. pg. 15.

manufacturing, construction, transportation, tourism, and services. Projects were to make a contribution to the overall economic development of the country through significant employment generation, foreign exchange earnings or savings, or the utilization of local resources. Borrowers were to contribute at least 20% equity to the capital investment supported by the loan, and were to generate employment within a capital labor ratio of $10,000:1 (fixed assets per full time job equivalent).

In countries where there was no viable DFC available, the CDB could lend to commercial banks under the program, provided that they were willing to utilize the funds in a manner consistent with project objectives, were financially sound, and could obtain a government foreign exchange guarantee. The commercial banks could borrow at 4%, the governments would receive a 1% fee from the CDB to cover the foreign exchange risk, and the banks would be expected to onlend at "non-prime rates" (about 10-12%).

Utilizing $1.4 million of grant funds, the project would provide technical assistance in the following areas:

- A Development Banking Specialist and short term specialist to provide Technical Assistance to the DFC's

- A Small Business Advisor to be stationed within each of the participating financial institutions for two years (supplemented by Peace Corps and International Executive Service Corps assistance)

- Technical Assistance (long and short term) in export promotion, industrial estate management, small business, and technical support

- Consulting Services to establish standards for industrial estates

- Consulting Services to design and provide quantity surveys for standard factory shells.

The technical assistance activities would be directed primarily at the users (or potential users) of the small industry credit funds in the LDCs.

The project agreement was signed in June, 1979 and implementation began soon thereafter.

B. IMPLEMENTATION OF THE FACTORY SHELL COMPONENT

The EIP II project loan agreement was dated July 29, 1979. Project disbursements started in 1979. The industrial estate loans were made by the CDB to the governments of the borrowing countries. An Executing Agency was designated to manage the program in each country, but the government maintained full responsibility for repayment. EIP II resources were supplemented by other resources in funding the CDB Industrial Estates program, and it has not always been possible to disaggregate EIP II funds from other funds within the program. The table below summarizes the disbursements made by the CDB, along with the EIP II element of the loans.

CDB LENDING FOR INDUSTRIAL ESTATES

Country	Total CDB Loan $000	EIP II Funding $000
St Vincent	2,072	1,195
St Lucia	1,672	1,009
St Kitts	727	52
Montserrat	139	139
Dominica	960	910
Total	5,570	3,305

The EIP II factory shell program was evaluated by Arthur D. Little, Inc. (ADL) during 1984, the conclusions of which are summarized below.

1. Conclusions and Recommendations of the 1984 Evaluation of the CDB/AID Industrial Estates Program

An evaluation of the CDB/AID Industrial Estates Program, under which the CDB made loans from USAID to member countries for construction of factory shells was evaluated by Arthur D. Little, Inc. (ADL) in 1984. The evaluation examined the effectiveness of the Industrial Estate Program as it was implemented in the six study countries of Antigua, Dominica, Grenada, St. Kitts, St. Lucia and St. Vincent. Although the evaluation of the program was required under the terms of USAID's employment investment promotion program which provided funding for industrial estates (among other project elements), the examination covered the CDB's overall industrial estates initiative, and not just the USAID funded portion. As was noted in the ADL evaluation, since other donors contributed to the program and all funding resources were combined, it would have been impossible to evaluate only the EIP II funded projects.

The ADL evaluation report concluded that:

> The industrial estates (IE) program has largely accomplished the rather modest objectives. The construction of subsidized factory space has undoubtedly stimulated investment in small- and medium-sized local industries. However, it is probable that many of these industries would have been established without the program. Since a total of 4,346 jobs have been generated by the establishments in the industrial estates (of which 950 are in industries producing for the local and regional markets), it can be reasonably stated that the EIP II employment target of 1,850 jobs to be created by all components of the project has been met."[3]

The ADL 1984 evaluation judged that the effectiveness of the industrial estates program was hampered because it was concurrently aimed at two separate sets of objectives. It asserted that in its initial design, the EIP II program was primarily intended to help stimulate local small- and medium-sized industries. However, in later years the program was increasingly viewed by the member countries of the OECS as a tool for promoting foreign investment in industries producing for export markets outside of Caricom.

The ADL 1984 evaluation also concluded that institutionally, the Development Finance Corporations (DFC's) were not the appropriate executing agencies for the industrial estates program. It was noted that the mission of the DFC's is largely to provide financial and technical support to stimulate local investment, which was entirely unrelated to the functions of the development of industrial estates and the promotion of export oriented investments. It noted that DFC's, which were the executing agencies in all the islands except St. Lucia, did not have the adequate institutional capabilities to effectively manage the IE program.

The 1984 evaluation further noted that the EIP II lending for industrial estates was limited to the construction of factory space, but this policy left out other factors which are crucial to the success of the industrial estates and the overall development programs - such as industrial infrastructure, and institutional capability for implementation. It noted for example that in some countries, such as Antigua and Grenada, infrastructural constraints (roads, water, telephone, etc.) needed to be addressed in order for the IE program to be successful.

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[3] Arthur D. Little, Inc., Evaluation of the CDB/AID Industrial Estates Program. Pg.2.

The evaluation was critical of the planning approach to the construction of factory space. It criticized the requirement for 'firm demand' and 'one building in advance' as being inappropriate. Since the availability of buildings was intended to be a tool for investment promotion, the CDB requirements may have worked contrary to the achievement of this objective, because a number of foreign investors looked elsewhere when factory space was not readily available. They suggested that this system had several problems and there was a need to develop a new approach to planning.

The evaluation was also critical of CDB policies and procedures in relation to procurement and approvals. It noted that the CDB procurement requirements contributed to delays in the construction of factory buildings. It noted also that in many cases, poor understanding of CDB procedures by the executing agencies led to delays when procedures were not followed and the CDB was forced to intervene.

The evaluation also noted that the planning of industrial estates in the study countries were relatively inadequate. It noted for example that the planning of industrial estates was often carried out by the planning unit or by the Ministry of Trade and Industry with only limited inputs by the executing agency for the IE program. This lack of co-ordination, it concluded, combined with the tendency not to plan the industrial estate as an integral component of an export oriented industrial development policy had led to a number of problems: For example, it noted that most of the governments were deciding on sites for industrial estates on the basis of political considerations rather than on an assessment of the most appropriate location (e.g., proximity to supplies, transport, and labor) for an industrial estate for export oriented industries.

The evaluation also commented on the role of the private sector and its impact upon the project. ADL noted that the local private sector was generally not involved in export oriented industries or in the promotion and management of the IE program. By not involving the local private sector in the promotion of foreign investment, PDAP and the government investment promotion agencies have contributed to a sharp distinction between the local industrialists producing for the local and regional markets and the export oriented foreign firms.

ADL concluded that the industrial estates program should be continued as a major component of AID/CDB support for industrial development in the Eastern Caribbean, but that a number of important modifications in the design of the program should be implemented. The major ADL recommendations were as follows:-

1. The IE program should be designed as an integral component of an export oriented industrialization strategy.

2. Support for local import substitution industries should be separated conceptually and institutionally, not just functionally, from the IE program. The DFC's should continue to support small- and medium-sized businesses, and if appropriate, provide long-term financing for the construction of factory space. Available public factory space should be used exclusively as a tool for promoting foreign investment.

3. The IE program should be adapted to the needs of each country, which requires careful planning during the loan approval stage.

4. Rents should be non-subsidized and should cover all servicing requirements of loans financing the IE program (including those for infrastructure).

5. Private sector construction of buildings (by industrialists and developers) should be encouraged and facilitated by providing long-term mortgage financing under the AID/CDB industrial estates program. Whenever possible, CDB financed structures should be reserved for new investors.

6. Implementation of the industrial estates program should be undertaken by an integrated institution (not the DFC) with responsibility for the planning, construction, promotion and management of the industrial estates. This institution should be closely integrated with the overall export development program (possibly the same institution). Where possible, the private sector should take an active role in the management, promotion and planning functions.

7. Although it is recommended that the CDB continue to administer the IE program, a number of changes are required in its policies and procedures, some of which were noted above. One of the principal recommendations involves placing considerably greater emphasis on the program design and loan approval process and expediting the procedures for reviewing and implementing specific projects to be funded under an approved loan.

8. Assessment should be made of the infrastructure needs for realizing the established targets. In addition to estimating the requirements for industrial sites and factory space over a five-year period, other infrastructural needs such as roads, airport and seaport improvements,

electricity, water, sewage disposal, and other infrastructural elements, should be identified. The assessment of the infrastructural requirements should result in a phased development program for industrial estates and the appropriate support infrastructure.

9. Identification should be made of institutional development requirements for the designated executing agency. This appraisal should consider all related functions, including planning, promotion, construction project management, and industrial estate management. The appropriate funding and technical assistance should be included in the CDB loan, although preferably separated as a grant.

2. Project Outputs

The current evaluation focuses on the implementation of the EIP II factory shells program in the OECS states of St. Lucia, St. Vincent, Dominica, St. Kitts and Montserrat. The EIP II factory shell program has disbursed a total of $4.01 million in the Caribbean as a whole, of which $3.3 million has assisted in the construction of about 302,040 sq. ft. of floor space in the above mentioned territories.

The following table summarizes the outputs of the program:

EIP II INDUSTRIAL ESTATES - PROJECT OUTCOME

Country	Loans Disbursed($)	Factory Space(sq.ft)	Jobs Created
St Lucia	1,009	78,922	840
St Vincent	1,195	121,000*	710
Dominica	910	52,000	300
Montserrat	139	8,000	90
St Kitts/Nevis	52	42,500	150
	3,305	302,422	2090

* 12,000 sq.ft is still under construction.

a. St. Lucia

The EIP program in St. Lucia was implemented by the St Lucia National Development Corporation (NDC). NDC was responsible for the construction, maintenance and promotion of the industrial estates. $1 million was disbursed to assist in the financing of 78,922 sq.ft. of factory shells. Nine factory shells have been completed, of which one 18,400 sq. ft shell is unoccupied. This shell used to be occupied by Marston Mills who closed operations in 1986, and the shell has been unoccupied since then. As shown in the Exhibit below, the business occupying the shells are all foreign owned assembly operations involved in the garment or electronic industries producing for the USA market. Employment generated by the businesses occupying these factory shells is of the order of 840. The rental rate charged by NDC is $2.20 per square foot per year. Only one of the tenants occupying the EIP II funded factory shells is in arrears.

The outcome of the St Lucia industrial estates program was:

St Lucia Industrial Estates Program - Outcome

Type of Operation	Floor Space Sq. ft.	Market	No. of Employees
Unoccupied	30,800	N/A	N/A
Garment Assembly	13,682	USA	300
Electronics Assembly	4,400	USA	25
Garment Assembly	8,420	USA	75
Garment Assembly	4,000	USA	225
Hair Piece Assembly	8,400	USA	30
Garment Assembly	9,240	USA	185
	78,942		840

b. St. Vincent

The EIP II industrial estates program in St. Vincent was implemented by the Development Corporation of St. Vincent (DEVCO). DEVCO was responsible for the construction, maintenance and promotion of the industrial estates. $1.2 million of USAID funds were disbursed to assist in the financing of the construction of 109,000 sq. ft. of factory space. An additional 12,000 sq.ft. is currently under construction. Seven shells were completed under this program and one half of a 20,000 sq. ft. shell is unoccupied. Employment generated by the project is in the region of 650. All the tenants, with one exception, are foreign owned assembly operations producing for the USA market. Rental rates charged are $2.05 per square foot per year. The outcome of the St Vincent industrial estates program was:

St Vincent Industrial Estates Program - Outcome

Type of Operation	Factory Space (sq. ft)	Market	No. of Employees
Sporting Goods Assembly	25,000	USA	170
Flour Mill (w'house)	10,000	Local	
Unoccupied	10,000		
Glove Manufacturer	12,000	USA	170
Garment Assembly	24,000	USA	220
Electronic Assembly	12,000	USA	145
Yacht Manufacturer	6,000	Local	5
Under Construction	12,000		
	121,000		710

c. St. Kitts

The Development Bank of St. Kitts was responsible for the implementation of the EIP II factory shell program in St. Kitts/Nevis. $52,000 of USAID funds were disbursed to assist in the financing of 42,500 sq.ft. of factory space. Of the seven shells completed under the program and currently occupied, two are currently in arrears. Rental rates charged are $1.85 per square foot per year. The Development Bank reported that they were no serious arrears problems.

The outcome of the St Kitts industrial estates program was:

St Kitts Industrial Estates Program - Outcome

Type of Operation	Factory Space (sq. ft)	Market	No. of Employees
Electronic Assembly	5,000	U.S.A.	60
Electronic Assembly	5,000	U.S.A	10
Data Entry	5,000	U.S.A	150
Garment Assembly	10,000	U.S.A	30
Electronic Assembly	7,500	U.S.A	150
Unoccupied	5,000		
Unoccupied	5,000		
	42,500		400

d. Montserrat

The Development Finance and Marketing Corporation (DFMC) in Montserrat was responsible for implementing the EIP II industrial estates program. $139,000 of USAID funds were disbursed to assist in the construction of an 8000 sq. ft shell. Rental rates were set at $1.40 per square foot per year. A summary of the tenants occupy the factory shell is provided below:

Montserrat Industrial Estate Result

Type of Operation	Factory Space (sq.ft)	Market	Full Time Employees
Data Processing	5,000	U.S.A.	55
Electronics Assembly	3,000	U.S.A.	33

e. Dominica

The Dominica Agricultural and Industrial Development Bank was responsible for implementing the EIP II industrial estates program. $910,000 of USAID funds were disbursed to assist in financing the construction of 52,000 sq. ft of factory space under two CDB lines of credit. Four of the six tenants are involved in assemble operations for the U.S market. Employment generated by the project is estimated at about 300. Rental rates are set at $1.50 per sq.ft. per year. Of the six tenants, one is deeply in arrears.

The outcome of the Dominica industrial estates program was:

Dominica Industrial Estates Project Outcome

Type of Operation	Floor Space (sq.ft)	Market	No. Of Employees
Candle Making Company	3,000	Local/ Regional	19
Garment Manufacturer	3,000	Local/Extra Regional	12 *
Glove Manufacturer	20,000	U.S.A	225
Plastic Shoe Manufacturer	7,000	Local/ Regional	9
Unoccupied	13,000	------	- #
Furniture Manufacturer	6,000	Local/ Regional	30
Total	52,000		295

* This tenant is 17 months (or EC $12,000) in arrears.

This shell is expected to be rented to a foreign garment manufacturer for September employing 100 workers.

3. Project Impact

The estimates which follow are compilations of data available, based on a purposively, and not randomly, selected sample. The evaluation team had neither the resources nor the data to undertake a rigorous cost-benefit analysis of the EIP II factory shell program.

The EIP II Industrial Estates program has disbursed a total of $3.3 million in loans to the CDB for financing of some 302,000 sq. ft of industrial floor space in 5 member countries of the OECS. It is difficult to determine the total investment associated with the EIP II program in the OECS. If we assume that USAID contributed an average of 60% to the CDB industrial estates line of credits which were partially funded under the EIP II program, and the CDB lends the governments an average 90% of the cost of the industrial estates, then total investment associated with the EIP II program in the OECS may sum to about $6.1 million This investment does not include the investment costs of the tenants of the factory shells estimates of which were not available to the evaluation team.

It appears that the EIP II industrial estates program, which disbursed $3.3 million in 5 OECS countries, contributed to the creation of about 2230 jobs (an average of over $1500 in USAID loan funds per job created). Most of the tenants in the factory shell visited by the evaluation team indicated that the existence of the factory shells was an important factor in their decision to establish their business in that particular country.

The majority of the businesses occupying the factory shells built under the EIP II industrial estates program were assembly operations producing for the U.S. market. These projects worked with relatively large quantities of imported materials and produced very little value - added other than local wages and rents. An approximation to the value of exports contributed by the EIP II factory shells program can be obtained by estimating the payroll and overhead cost of these assembly operations. The evaluation team estimates of the value of exports computed on his basis is approximately $5 million per annum (About $500,000 for rents, $3.0 million for payroll, and the rest for other overhead costs).

C. APPLICATION OF GENERIC SCOPE OF WORK TO EIP II FACTORY SHELL PROGRAM

1. Project Design Elements

A general description of the Generic Scope of Work used in LBII's evaluations of RDO/C's private sector projects is contained in Chapter 1, Section B above. The purpose of the EIP II project was to stimulate investment in small- and medium-sized business, the goal was to increase employment and income of the poor.

These objectives fit within the private sector program economic development goal:-

> **To increase the contributions of privately owned business establishments and the institutions which serve them to employment, production, productivity, net foreign exchange earnings, and/or improve standards of living in specific Caribbean countries.**

Relevant purposes elements associated with the factory shells program would include the following:

- To develop land for industrial and commercial uses

- To provide factory buildings
- To improve service or reduce cost of public infrastructure utilized by productive activities
- To promote exports

2. Causal Paths

The EIP II factory shells program was designed to make direct loans to member states of the OECS for industrial estate development. The availability of this financing would motivate member countries of the OECS to develop land and finance the construction of industrial factory buildings. The availability of these factory shells would stimulate both local and foreign investment in the region and it was hoped that this investment would lead to increased exports, contribute to business growth, new production and employment and, thereby, to improved standards of living.

3. Evaluation Evidence

The EIP II factory shells program succeeded in disbursing $3.3 million to 5 OECS countries, the loans assisted the governments of these countries to construct over 300,000 sq. ft of industrial factory space. In this regard, the EIP II factory shells program was appropriately designed and proved to address a critical constraint. In providing this factory space the EIP II program can be said to have encouraged foreign investment. The low level of arrears and high occupancy level further suggests that the program was successful in meeting its objectives, although the level of subsidies involved needs to be carefully calculated to compare to benefits.

The EIP II factory shells have lead to the creation of approximately 2100 jobs and in this regard, the program have lead to an improvement in the standard of living in the OECS countries.

The majority of the companies occupying the factory shells built under the EIP II program are assembling goods for the USA market and to this extent have contributed to the promotion of exports from the region.

D. EVALUATION CONCLUSIONS-FACTORY SHELLS PROGRAM

The evaluation evidence suggests that the EIP II factory shells program has broadly met its objectives in terms of providing a stimulus for promoting investment in the region. Approximately 20 foreign owned operations are occupying the factory shells and the majority of the tenants interviewed sighted the availability of these factory shells as a major factor in their decision to locate in the country in which they were operating. The program has also assisted in providing employment for approximately 2100 people in the region.

Our general findings indicate that the shells are well maintained and that the arrears situation is under control. The occupancy rates experienced by most countries have generally been acceptable. In general, the CDB has not been successful in persuading the governments in the region to charge economic rents for the factory space. The rental rates charged vary from a low of $1.40 per sq. ft in Montserrat to a high of $2.20 per sq. ft in St Lucia. DEVCO has computed that the minimum economic rent would be $3 per sq. ft for the buildings constructed under the EIP II program. If this rent is fairly representative across the other territories, then the level of subsidy (at the national level, which does not take into account the interest rate subsidies provided by the donors) varies from $1.60 per sq. ft to 80 cents per sq. ft, or a total of $242,000 - $484,000 per year for all factory space funded by EIP II.

Important lessons can be learned by comparing the outcome of the EIP II program with that of the IPIP program. EIP II was successful in assisting in the financing of some 300,000 sq. ft. of industrial factory space in 5 OECS countries as compared to the modest 20,000 sq. ft. of industrial factory space built by a private developer under the IPIP program. The result of these two programs suggests that a private sector response is not necessarily the most appropriate solution to all the problems of development. In particular, the provision of industrial infrastructure may be left to public sector institutions where they have demonstrated a willingness and ability to meet identified demand.

E. IMPLEMENTATION OF INDUSTRIAL CREDIT PROGRAM

The EIP II project loan agreement was dated July 29, 1979, and project activities began in earnest in late 1979, with significant disbursements taking place starting in 1980. As noted above, opportunities for investment in industrial estates quickly outpaced those for industrial credit programs, and funds were shifted out of the latter and into the former on two occasions. Final disbursements from the industrial credit program are summarized in Exhibit IV.1. The program was evaluated by Arthur D. Little, Inc. during 1984, the conclusions of which are summarized below.

1. Conclusions and Recommendations of 1984 DFC Evaluation

An evaluation of the USAID/CDB on-lending programs with the national Development Finance Corporations (DFCs) was conducted by Arthur D. Little, Inc. in 1984. The evaluation included three projects being carried out by CDB and the DFCs, including EIP II. ADL visited DFCs disbursing EIP II credits in Antigua and Dominica and noted that disbursements of industrial credits through the DFCs had been slow - less than 40% of the $765,000 approved for Antigua and Dominica had been disbursed by the end of 1983. ADL further noted that the program "has obviously had relatively minor permanent employment generation effects and only limited benefits in terms of entrepreneurial development in the islands"[4]

ADL reported that the technical assistance grant funds provided for under 538-0018 had been almost completely allocated, and were expected to be exhausted by the project completion date (then set at Dec. 31, 1984). The report noted that Industrial Development Specialists (IDS), and CDB Accounting and Banking Advisors had been provided to a number of DFCs and had provided "recognizable assistance." The Investment Promotion Program was not specifically reviewed and the Small Enterprise Assistance element was judged "almost totally unsuccessful." On balance, however, ADL favored the continued use of CDB to channel and control on-lending activities, and noted CDB's important contribution to the development of the DFCs.

With regard to the EIP II program as a whole, ADL noted that the factory shell component had succeeded in attracting many foreign owned, export oriented companies which employed relatively large numbers of people. The industrial credit component, by contrast, was devoted to much smaller, indigenous companies with significantly less employment and foreign exchange impact. The factory shell program met short term goals in terms of employment and foreign exchange earnings, while the industrial credit program served a longer term goal of fostering entrepreneurial development in the region. ADL concluded:

> The dominant [short term] goal [of increased employment] neither fits well the longer term effort at entrepreneurial development, nor is it (or other donor goals) understood

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4. Arthur D. Little, Inc., "Evaluation of the CDB/AID Private Sector On-Lending Programs," Jan. 1985, pg. 6.

clearly by the management and staff of the DFCs, which contributes to a lack of focus in DFC lending. We suggest that programs whose purpose is to rapidly increase employment, be clearly separated from those whose intent is to foster the longer term development of local entrepreneurs.[5]

The 1984 evaluation judged that the DFCs were short on planning skills and recommended that DFCs be required to submit annual integrated financial, marketing and operational plans, and suggested that pressure to disburse donor funds rapidly should be eased while necessary planning programs are implemented in the DFCs. The 1984 evaluation also recommended the introduction of management information systems at the DFCs, geared at gathering and organizing data needed for management of sub-loans (including stricter enforcement of requirements for annual financial statements from borrowers).

The 1984 evaluation also noted that most of the DFCs knew little about EIP II goals or structure (they often received pooled resources and could not always identify how EIP II resources were utilized). DFC's were criticized for poor monitoring of loans disbursed, but noted that the pressure on DFCs was to disburse funds quickly - given a shortage of personnel resources, DFCs were busy with appraisals and approvals, and had few resources left over to monitor disbursed loans. As a result, DFCs first noted a troubled loan when arrears began to appear on the books, and rarely before.

Lending emphasis was on the tourism sector, followed by garment, manufacturing, and service industries; while agribusiness and wood products received the least funds. The tourism projects also involved the largest loans, many in the $50,000 to $150,000 range. Manufacturing loans were more frequently in the $4,000 to $20,000 range.

Specific assessments of the EIP II-supported industrial credit programs at the Dominica Agricultural and Industrial Development Bank (AIDBank) and the Antigua and Barbuda Development Bank (ABDB) can be summarized as follows:

The **Dominica AIDBank** disbursed $500,000 of EIP II funds within a larger industrial credit program designated 31/SFR-D. Seven individual loans were made, all over $20,000 and six over $37,000. Total lending by industry category was as follows:

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5. Ibid., pg. 12.

Garments:	$ 92,600
Wood Products:	$ 74,100
Tourism:	$225,900
Manufacturing:	$100,000
Other:	$ 57,400

The 1984 evaluation described it as "the most aggressive and successful in its lending practices" of the DFCs visited. Its arrears were the lowest of any of the DFCs visited by ADL. Given the many constraints to industrial development in Dominica, the successes of the AIDBank were particularly noteworthy.

The Antigua and Barbuda Development Bank, disbursed EIP II funds within a larger industrial credit program designated 19/SFR-A. As of 1984, 12 loans had been made, and total 19/SFR-A lending by industry category was as follows:

Industry	**No. Loans**	**US$ disbursed**
Services:	1	$ 3,700
Garments:	2	$ 16,700
Wood Products:	2	$ 10,000
Tourism:	2	$ 59,300
Manufacturing:	2	$ 23,700
Other:	3	$ 25,900

The ABDB had a significantly higher arrears problem than local commercial banks, was heavily dependent on loans in the tourism sector, and suffered from a lack of technical assistance in other sectors. ABDB had an Industrial Development Specialist for ten months provided by the CDB utilizing EIP II grant funds, which may have been an unduly brief period of time to have any significant impact. By the end of the EIP II program, ABDB had disbursed a total of $183,000 of EIP II funds.

In terms of economic development impact, the 1984 evaluation noted that employment was more efficiently generated by garment, electronic assembly, and service industries (as measured by capital labor ratios) than by the tourist industry and other manufacturing industries which received the bulk of DFC industrial credits. ADL noted that most of the major employment-generating industries were dominated by foreign investors. ADL stated, **"Based on our best estimates of the actual employee levels of viable projects and the percentage of projects that are either bankrupt or very close to it, the total DFC employment generation estimates [for the DFC industrial lending programs are** in] a range of 1,100 to 1,900."[6] ADL also concluded that there was little evidence of entrepreneurial skill development resulting from the EIP II program, either as a result of lending or the availability of technical assistance through the EIP II grant program. ADL reported that most of the Industrial Development Specialists provided to the DFCs spent much of their time serving as additional Loan Officers (due to pressures on DFCs to disburse funds), but that the promotional and training aspects of the IDS positions were very beneficial.

Major ADL conclusions and recommendations were as follows:

> 1. The CDB on-lending program, in terms of structure and size, appears to be appropriate for the lending capacity of the DFCs.... The CDB should continue to broadly define the concept of the lending program for the DFC and allow the local banks themselves to specify their target markets and lending objectives.
>
> 2. None of the DFCs have a defined strategy for lending in the industrial sector... The DFCs should develop a lending strategy on an annual basis.
>
> 3. The industrial project officers do not exhibit the marketing aggressiveness and industry expertise to develop and manage projects.... The DFC Loan officers should continue to receive professional training that allows them to actively assist in identifying, developing, and monitoring loans to targeted industrial sectors.
>
> 4. The technical assistance program supported by EIP II had mixed results. In general, however, the Industrial Development Specialists can be very effective in identifying and assisting new projects... The IDS program should be given sufficient funds for the local development bank to identify the most appropriate person for the job, whether he or she be from the country or an expatriate. Also the functions of the IDS should be clearly defined among all parties involved -- the CDB, the DFC management, and the IDS.
>
> 5. The DFCs should develop a lending strategy that recognizes the importance of providing financial and technical assistance to local firms that are interested and capable of associating with foreign owned companies.

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[6]. Ibid, pg. 90.

6. The DFCs should spend more time and effort in project supervision, and require the borrowers to provide the financial statements that the loan agreements stipulate they submit to the bank.[7]

2. Project Outputs

The current evaluation focussed on the two DFCs in OECS member territories which were not visited by ADL in 1984: the Montserrat Development Finance and Marketing Corporation (DFMC) and the Grenada Development Bank (GDB). These institutions are discussed separately below.

a. Montserrat Development Finance and Marketing Corporation

The Montserrat Development Finance Corporation (DFMC) is scheduled to implement a major restructuring effort in the near future, and is currently largely inactive. The skeleton staff is monitoring existing loans and collecting loan repayments, but is making no new loans until restructuring is underway and new funds are available. Due to a misunderstanding, data was provided to the evaluation team and visits arranged for subloans which were disbursed under an older line of credit than EIP II - USAID loan 003, designated 7/SFR-M for Small Industry Credit, or SIC, some funds from which were later transferred to EIP II (USAID loan 012), designated SIC II. By the time the nature of the error came to light, the DFMC manager was away on leave, and the new information requested could not be retrieved by the secretaries at DFMC. CDB personnel were able to retrieve information on disbursements from EIP II, but had few details and no follow-up data from DFMC on those loans. Nevertheless, the information provided by the DFMC on the older loans was described by CDB officials as representative of lending activity which followed, in that there have been few changes in policy, lending/repayment patterns, or business conditions in Montserrat which would be significantly different from the data obtained.

Restrictions on the line of credit supporting the original SIC program stipulated that 20% of the loan funds could be used to finance small handicraft industries for under $2,200 each; the rest of the loan funds should be used for loans over $2,200 and under $74,000; CDB approval would be required for all loans over EC$75,000 (US$27,800). Loans could not be made for the purposes of financing the purchase of land or working capital; interest rates should not exceed 8%. Subloans should not be made to an individual who had a net worth over EC$150,000 (US$55,600).

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7. Ibid, pp 94-106.

However, the CDB Board of Directors in 1979 granted permission for the DFMC to finance AIC (agricultural and industrial credits) and SIC subloans out of the "Second SIC Loan," (EIP II) which would permit AIC loans to individuals with a net worth over EC$150,000. Such loans could be made with interest rates in the range of $9.5 - 11.5% per annum. AIC subloans could cover no more than 80% of the investment costs in question; SIC subloans could cover up to 90%.

The total line of credit extended to the DFMC under the line designated 7-SFR/M was $100,000. A total of about $63,000 was disbursed, of which $55,000 was financed by EIP II. According to CDB files, three sub-loans were disbursed under the line, as follows:

Industry/Purpose	US dollars disbursed
Manufacturing (equipment for soft-freeze ice cream)	18,245
Forestry (log skidder plus supplies)	37,037
Emerald Isle Leather Works	5,353

The original SIC program, as reported by the DFMC, contained nine loans ranging in size from $1,200 to $61,000, disbursed between 1974 and 1977. All loans bore an interest rate of 8%; repayment periods ranged from five to eleven years. Amounts disbursed by industry category, and arrears (principal and interest as of July 1987) were as follows:

		US$	
Industry	No.Loans	Disbursed	Arrears
Furniture/upholstery	4	18,500	12,600
Plastics	1	2,900	3,900
Printing	1	7,000	0
Metal working	1	1,900	2,600
Tannery	1	60,700	76,100
Distillery	1	1,200	800

All projects produced for the local market except the tannery (Emerald Isle Leather Works, in which the Montserrat government is the major shareholder), which produces for the Caricom market, but is struggling financially and deeply in arrears.

Two of the furniture makers were visited by a member of the evaluation team, one of whom had paid off his loan in full, and the other being in some arrears but making payments regularly. The first proprietor employs three full time workers in addition to himself, and reported that the loan was used to expand from a one-man operation. He reported that he could have obtained financing from the local commercial bank, but he would have needed a guarantor, and would have been charged 13%. Almost all his materials are imported, and he has no exports. The second proprietor moved to Montserrat from England several years ago, used his own funds to purchase equipment, and obtained a loan to construct factory space, using the equipment as collateral. He now employs four apprentices and his wife in addition to himself. He does not export, and he uses mostly imported inputs (all but one third of his wood and a small amount of cotton fabric). He reported that he could have obtained a commercial loan at 11%, but found the interest rate on the DFMC loan to be more favorable. He has some arrears, but expects to be fully paid up by the end of the year. He does not draw a salary for himself from the business, but lives off of other resources.

As of July 1987, all the loans listed above (except the tannery loan) should have been fully paid off. Arrears at the DFMC are very high, at about 85% (principal and interest arrears) of the amounts disbursed. Of the nine loans made by the DFMC under the SIC program, two have been fully paid off (representing 11% of the loan funds disbursed); two are paying but in arrears (10% of disbursements), one is still active but in severe and growing arrears (66%), one is from a company which closed down, and three are from borrowers who emigrated from Montserrat with amounts owing and no mechanism for repayment (13%). The Manager of the DFMC notes that debt service obligations are often so high in relation to a small, struggling firm's cash flow that borrowers often have insufficient cash left over for working capital requirements, and expressed a wish to make working capital loans. He also reported that DFMC did not have the resources to supervise loans after disbursement, and that the loan officers collected no formal reports on subloans. Their contact with clients is usually limited to collection efforts.

CDB personnel describe the above data as typical for the DFMC and judge that the DFMC urgently requires restructuring. For several years, they have been offering the DFMC the resources to assist in restructuring the DFMC, for technical assistance and staff training, but that DFMC has been slow in its application for assistance. About a year and a half ago, a Montserrat government committee, with CDB assistance, drew up a plan to restructure the institution; the DFMC is now taking steps to bring in a CDB-funded consultant to implement the recommended changes.

b. The Grenada Development Bank

The Grenada Development Bank received two separate lines of credit under EIP II, one designated 5/SFR-GR for Small Industry Credits (SIC), from which $38,000 of EIP II funds were disbursed, and one designated 15/SFR-GR for Agricultural and Industrial Credits (AIC), from which $74,000 of EIP II funds were disbursed. The SIC program was originally approved in 1973, to be funded by USAID loan 003, but the termination date expired before the project got underway very far. The conditions precedent were never satisfied until the end of 1978. About $33,000 of funds originally from USAID 003 were disbursed under the SIC line, along with $38,000 from EIP II (USAID 12). About $71,000, which had been approved by the CDB from EIP II but never disbursed, was cancelled after the CDB termination date for the line of credit expired.

The SIC line was to finance "medium and long term loans to small business enterprises particularly in the manufacturing and services sectors for the purpose of meeting the requirements of such enterprises for new capital investment."[8] The SIC line was originally intended to incur an interest rate of not more than 8%, and could not be used to provide finance for individuals whose net worth exceeded EC$100,000 (US$37,000). The funds could not be used to finance the purchase of land or to provide working capital.

The AIC line carried fewer restrictions, and could be used to lend to individuals with a higher net worth than was the case for the SIC line. The GDB charges 11% on industrial loans, which may carry a repayment period of up to ten years. GDB can fund no more than 80% of the total investment cost associated with the loan. GDB must refer all loans over EC$100,000 (US$37,000) to the CDB for approval, and face an overall loan ceiling of EC$500,000 (US$185,000). GDB has requested that the approval limit be raised to EC$200,000 and that the loan ceiling be raised to EC$800,000. GDB personnel explained that the requirement for CDB approval of loan often becomes a bottleneck, although CDB's response time has improved over the years.

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8. Loan Agreement between the Grenada Development Bank and CDB for CDB loan 5/SFR-GR, signed Sept. 1984, Article 11.

According to data provided by the GDB, disbursements from the two lines were as follows:

FROM 5/SFR-GR (SMALL INDUSTRY CREDITS)

Industry	CDB Credits Disbursed (US$)	Total Investment (US$)	Funds Outstanding (US$)	Arrears (US$)
Soap making	2,600	6,000	0	0
Cassava Factory	27,400	74,400	43,400	16,000
Wrought Iron	2,800	4,800	2,400	1,500
Furniture	11,500	104,200	5,900	3,500
TOTALS	44,300	189,400	51,700	21,000

FROM 15/SFR-GR (AGR.& INDUS. CREDITS)

Industry	CDB Credits Disbursed (US$)	Total Investment (US$)	Funds Outstanding (US$)	Arrears (US$)
Guesthouse	27,800	35,000	32,600	400
Bakery	3,700	8,100	0	0
Banana	13,300	29,100	0	0
Fishing	11,100	53,700	7,500	0
Industry	27,800	62,600	25,200	7,200
Industry	39,000	51,500	28,700	4,900
TOTALS	122,700	240,000	94,000	12,500

As seen in the tables above, arrears on the SIC loans amount to almost 50% of the funds disbursed and about 40% of amounts outstanding; those on the AIC loans are a more manageable 10% of amounts disbursed and 13% of amounts outstanding. The GDB personnel interviewed by the evaluation team reported that industrial loans have a greater arrears problem than other sectors of the economy, in part related to business cycles and in part because there are no automatic repayment mechanisms as there are in other loan sectors (liens on salaries and sales of crops marketed through coops and marketing boards).

The GDB management has worked hard to reduce the arrears problem; they report that in the past, arrears problems were worse than they are at present, in part due to an image of "leniency" associated with their low interest rates and their status as a government owned development institution. The GDB management interviewed by the evaluation team believe that many borrowers place the GDB low on their list of repayment priorities, on the assumption that likely costs of falling behind on GDB payments are lower than those for, say, a supplier or a commercial bank (who will cut off existing lines of credit). GDB has no comparably simple method of enforcement, but it does have an established procedure for delinquent accounts - including a series of reminders and strongly-worded letters, a request that the delinquent borrower visit the bank, referral to a solicitor, and court action to seize assets. The GDB manager describes the procedure as very slow, but says the bank has carried such procedures through the court stage. According to the manager, the court magistrates tend to sympathize with the borrowers, and actual seizure of assets is difficult.

In the past, the GDB would make "character loans," (a euphemism for unsecured loans), but bank policy has been changed, and all loans must be secured. In the past, as well, there were instances of political intervention on behalf of the clients, another situation which has improved considerably over the past few years.

The evaluation team visited four recipients of industrial credits in Grenada, including two furniture manufacturers, a garment maker, and the owners of a guesthouse. It was later discovered that only one of the interviewees (one of the furniture makers) was actually a recipient of EIP II funds, although the individuals interviewed were described as typical industrial borrowers.

The garment manufacturer received a loan for about $76,500 in 1983, to start up production of handbags for the regional export market. The owner/manager had considerable experience in garments, and an established export market in Trinidad and Tobago. The loan was made for 11%, with a ten year repayment period. The manager reported that he was unable to obtain long term financing from commercial banks, and that his request for a loan from CFSC was denied (based on a perceived over-reliance on the Trinidad market, which was then closing its doors to imports). The new handbag company had a problem for two years repaying its GDB loan, and arrears built up to about $28,000 in 1985. By October 1986, however, arrears were down to $1,850, and the line was beginning to show a profit. The firm employs 30 people full time, mostly young women.

The two furniture manufacturers have received a total of about $30,000 to buy equipment to expand production and both proprietors said that they could not have obtained investment finance from commercial banks at the time they applied for the

GDB loan, although one of the proprietors said that he is getting money from the National Commercial Bank now. The bank loans permitted operations to expand in one case from five people to 20, and in the other case from one person (the proprietor himself) to 17.

The owners of the Guesthouse received a loan of $74,000 in September 1984 to build six rooms for the guesthouse, which is just outside St. Georges. The venture employs an average of seven people full time, including the husband and wife team who own and manage the operation.

All the loan recipients interviewed described their relationship with GDB as quite good, reported that GDB personnel had assisted them in the loan application process, and had maintained regular contact thereafter. The GDB loan files provide further evidence of regular monitoring of loans and contact (at least by mail) with borrowers. This does not mean, however, the GDB personnel have been able to provide useful assistance to entrepreneurs experiencing financial difficulties.

The CDB sent GDB an Industrial Development Specialist (IDS), who worked with GDB for about two and a half years (from 1980 to 1982), performing project development assistance, loan appraisals (serving, in effect, as a loan officer), and training a counterpart. Unfortunately, the counterpart left the GDB shortly after the IDS. According to the Manager of the GDB, a second GDB loan officer received training at the CDB, but later left the GDB. They have recently recruited a new Industrial Development Expert.

c. The Dominica Agricultural and Industrial Development Bank

In addition to visiting the two DFCs which were not reached by the 1984 ADL evaluation, the LBII evaluation team undertook a brief visit with the manager of the Dominica Agricultural and Industrial Development Bank (AIDBank) to discuss any changes which had taken place since 1984.

As of 1987, collection rates for loans in the industrial sector were about 40% (principal and interest payments received over payments due), which compared unfavorably with performance in agriculture (over 80%) and housing (over 90%). The manager of the AIDBank confirmed that the industrial sector has been the weakest performer. He explained that the industrial loans tended to be larger than those approved for other sectors, that loan service represented a very large portion of most borrowing firms' cash flow, and that there were no automatic repayment mechanisms (such as liens on salary, which are used for housing loans, and liens on crop sales through marketing boards, which are used for many agricultural loans). The manager also noted that Dominican industry was hurt by the fall in intra-regional trade since 1983.

In addition, the manager felt that one of the AIDBank's problems is that, as a government institution, it is perceived as a lenient lender by many borrowers. Since industrialization is a high priority for the government, industrial borrowers may be presuming that political decisions will protect them from enforcement on loan servicing.

3. Project Impact

The EIP II program (sometimes along with other CDB resources) has disbursed a total of $850,000 in credits in the OECS to 31 borrowers. In most cases, DFCs could lend no more than 80% of the total investment costs; in Grenada, total investments averaged 2.57 times the EIP credits disbursed. Total investments supported by the EIP II program in the OECS might therefore range from anywhere from $1.06 million to $2.18 million (such "investments," however, may include purchase of land which is, in economic terms, a transfer of assets and not an investment). Most of the borrowers visited by the evaluation team indicated that the loans were critical to their business, and that it would not have been possible to obtain long term financing or such low rates at commercial banks, if commercial loans were available at all.

The 1984 ADL evaluation estimated the total number of jobs (ever) created by the various industrial lending programs undertaken by the DFCs was in the range of 2,500 - 4,200. Taking into account business failures, the ADL team revised the figures downward to 1,100 - 1,900. Utilizing the same assets/employee ratios calculated by ADL for the various industry categories (garments, wood, services, manufacturing, tourism)[9], it appears that the EIP II program, which disbursed $850,000 in four DFCs in the OECS, contributed to the creation of about 276 jobs (an average of just over $3,000 in USAID loan funds per job created), of which about 125 are probably still in existence (a ratio of $6,800 per job). The six firms visited by the evaluation team employed a total of 81 employees (as a result of a variety of investments, including EIP II funds). The firms interviewed paid their employees an average of EC$133 per week or US$2,562 per year, so that total employment benefit, associated with the EIP II program might be in the vicinity of $320,000 per year. The furniture makers employed almost all male workers, but the guesthouses and sewing operations employed mostly young women.

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9. ADL Evaluation Report, 1984, p. 88.

EIP II's contribution to employment is probably the most significant of its impacts. Relatively few of the businesses supported by the EIP II loans were foreign exchange earners, the ones which could be said to earn significant amounts of foreign exchange were the guesthouses and other tourist-related projects. Some projects exported within the region, including several of the garment projects. Most of these businesses, however worked with relatively large quantities of imported materials. None of the projects visited by the evaluation team involved manufactured exports outside the Caricom market. The furniture/wood working projects were generally import substitution projects; some of the lumber utilized in the process is locally produced, but the majority of it is still imported from Central and South America, the furniture makers reporting that local lumber is of inadequate quality and supplied only on an irregular basis. In the future, these furniture projects could provide a ready market for an improved local lumber industry, thus strengthening local linkages.

Given the failure rate of loans supported by EIP II, it appears that the successes generated by the project (viable businesses and associated employment, income, and foreign exchange earnings) took place amidst a considerable degree of wasted resources. Although all the money lent to CDB by USAID can be expected to be repaid on schedule, and although most of the USAID funds on-lent by CDB to the DFCs will be repaid on schedule by the governments concerned (with the exception of Antigua, which is already in arrears to the CDB), the repayments are not all generated from surpluses created by the program, as was intended. Governments (and the donors who continue to provide assistance to them) are in effect subsidizing a program which was expected to be self-sustaining.

F. APPLICATION OF GENERIC SCOPE OF WORK TO EIP II INDUSTRIAL CREDIT PROGRAM

1. Project Design Elements

A general description of the Generic Scope of Work used in LBII's evaluations of RDO/C's private sector projects is contained in Chapter I, Section B above. The purpose of the EIP II project was to stimulate investment in small and medium sized business, the goal was to increase employment and income of the poor.

These objectives fit within the Private Sector Program Economic Development Goal:

> **To increase the contributions of privately owned business establishments and the institutions which serve them to**

employment, production, productivity, net foreign exchange earnings, and/or improved standards of living in specific Caribbean countries.

Relevant purpose elements associated with the industrial credit program would include the following:

- To provide long term financing for businesses
- To encourage local investment
- To encourage risk taking and entrepreneurship
- To improve business management skills
- To reduce imports
- To promote exports

2. Causal Paths

The EIP II industrial credit program was designed to make loan financing available to small and medium sized business through national DFCs and/or commercial banks. The most important need served was for **long term financing**, which was usually not available to smaller businesses through the traditional, commercial banking system. This financing was considered necessary for many small-medium scale **local investments** to take place at all, since the private commercial banking sector was (and is) generally reluctant to accept the risk in making long term loans, especially to small business. The availability of these new sources of financing were expected to **encourage risk taking and entrepreneurship** in the region by creating new opportunities to start new businesses and expand existing ones.

The new investments taking place as a result of the EIP II credit programs would contribute to business growth, new production and employment and, thereby, to improved standards of living. The emphasis of the project on small and medium sized business was based on the assumption that such scale businesses were most likely to be labor intensive, and that new investments in smaller businesses would have a proportionally greater employment impact than investments in larger concerns.

In addition to financing, the EIP II project would provide technical assistance to borrowers and potential borrowers in **business management** skills. If successfully retained by the entrepreneurs, such assistance should lead to increased productivity and, thereby, production and probably employment as well.

It was hoped, in addition, that many of the investments financed by EIP II would either lead to **increased exports** and/or **reduced imports**, especially of manufactured goods. To the extent this was successful, the project would ultimately yield an increase in net foreign exchange earnings, at least at the national level.

The Institutional Development Goal of the private sector program is:

> **To increase the capacities, efficiency, and sustainability of institutions serving the private sector in the Caribbean.**

Although not described at the goal level of EIP II, this objective does appear at the output level in the project LogFrame, in terms of lending facilities serving small and medium sized businesses.

A successful Industrial Credit program, initiated by USAID funding, should lead to a self-sustaining and expanding program, as the participating financial institutions could borrow at 4% and lend at "non-prime" rates, anticipated to remain at 10-12%. This was based on an assumption that lending volumes would be in the range of 150 subloans per year and that arrears would not be a significant problem. A self-sustaining and expanding industrial credit program would continue to provide economic benefits as described above long after USAID funding had ceased.

In addition to loan funds, the technical assistance personnel provided to the DFCs were expected both to assist the subloan recipients in business development, primarily business management skills, and to train counterparts to carry on such functions after the project itself had ended. Given useful business advice, subloan recipients should show improved business performance, repay their loans on schedule, and thereby contribute both to economic development and the institutional development of the DFCs.

3. Evaluation Evidence

The EIP II program succeeded in disbursing $850,000 to four DFCs in the OECS. The loans all represented long term financing for business, which were described by most borrowers as critical for their local investments. In this regard, the EIP II project was appropriately designed and proved to address a critical constraint. In providing new opportunities for small and medium scale businesses to make new investments, the EIP II program can be said to have encouraged risk taking and entrepreneurship (if not entrepreneurial skills). However, loan volume failed to reach the target of 150 sub-loans per year, anticipated in the project paper and deemed necessary for the vigorous recycling which would be required for program self-sufficiency. Almost $1.2 million of EIP II funds originally earmarked for industrial credits were instead shifted into industrial estates, where they could be disbursed more readily, and most DFCs seemed to prefer to disburse a smaller number of larger value loans than those anticipated in the project paper. Many of the loans, especially in Montserrat, failed to create a significant new pool of viable businesses, as indicated by high and growing arrears on the loan programs supported by EIP II and other sources. The level of arrears on the programs indicates that a significant degree of wastage of resources was involved in the implementation of the program.

The technical assistance component of the EIP II project, which provided Industrial Development Specialists to DFCs, did not have a significant impact on the business management skills of Caribbean small-scale businessmen, as anticipated, probably because the DFCs, which were short on personnel and under considerable pressure to disburse funds, usually utilized the IDS people primarily as Loan Officers first, trainers of local personnel second, and only third as advisors to business-borrowers.

Many of the sub-loans provided under EIP II supported import-substitution ventures, several supported businesses exporting within the region and more supported tourist-sector foreign exchange earners. It appears that very few borrowers are exporters of manufactured goods outside the Caricom market. In addition, it appears that many of the import substitution ventures and export ventures alike utilize a high proportion of imported goods, although some could in the future provide a ready market for local producers, strengthening internal linkages within the OECS economies.

The technical assistance program implemented in the DFCs (the provision of the Industrial Development Specialists) may have increased the skill level of the loan officers at the DFCs, but does not appear to have had a significant impact on business management skills of sub-borrowers. Nor did EIP II alleviate the chronic loan administration and monitoring problem identified in the project paper at many banks: problem loans are still not identified until arrears begin to build, and there is very little the banks can do either to assist the borrowers in overcoming their financial difficulties or in collecting from recalcitrant borrowers. The failure to ensure loan repayment diminishes the ability of the banks to usefully recycle loan funds and to grow into self-sustaining lending institutions.

G. CONCLUSIONS AND RECOMMENDATIONS FOR INDUSTRIAL CREDIT

1. There probably remains a continuing need for long term investment credit for small and medium scale businesses in the OECS, but credit programs and policies need to be redesigned to ensure that donor resources are utilized with less waste.

Although several of the firms assisted by the EIP II program have grown to the level where they can successfully apply for credit from commercial banks, the commercial banks still confine their lending primarily to short and medium terms, and still avoid making loans to small scale and new entrepreneurs. Thus there remains a continuing need for long term credit for small businesses. However, taking into account the shortcomings of past programs and the excessive arrears within most of the DFCs' industrial loan portfolios, it appears that there is a need for redesigned programs of lending which ensure that loan funds are used productively and efficiently. Redesign is required at three levels: 1) project appraisal and loan disbursement, 2) loan monitoring after disbursement, and 3) repayment collections.

At the level of loan appraisal, policies should be introduced to ensure that applicants are more thoroughly screened to exclude those unlikely to sustain business growth and repay loans on schedule. In this regard, it may be necessary to reduce the pressure on DFCs to disburse funds quickly. In addition, many DFC loan officers could still benefit from continuing training in project appraisal.

Following disbursement, many DFCs urgently require more rigorous loan monitoring policies. In this regard, it may be necessary to provide continuing staff training in project monitoring, and to hire more staff at DFCs to permit more regular follow-up on disbursed loans.

Finally, in order to minimize the build up of arrears, DFCs should introduce stricter loan collection policies which can be consistently enforced. In this regard, it may be beneficial either for the DFCs to distance themselves more from government industrialization policies which create an image of leniency, or to seek more support from government in loan collection efforts.

If the DFCs appear to be incapable of instituting the necessary reforms, the RDO/C should consider alternative channels of assistance to small and medium scale industry in the OECS.

2. The conclusions and recommendations of the 1984 ADL Evaluation of the DFCs, although slightly out of date, remain largely valid.

It appears that there have been few significant changes in the DFCs or the industrial sector of the OECS since the previous evaluation of the DFCs in 1984. The downturn in intra-regional trade, upon which many small industrial firms are dependent, has shown little improvement, and most probably contributes to the poor repayment performance of the EIP II credits. The requirements for careful program planning and loan monitoring are therefore even stronger now than was the case in 1984.

CHAPTER FIVE: CARIBBEAN PROJECT DEVELOPMENT FACILITY

A. INTRODUCTION

This chapter describes the Caribbean Project Development Facility (CPDF). The CPDF was created in response to an entrepreneurial development challenge: a perceived dearth of entrepreneurial talent in the Caribbean. CPDF was to serve as a catalyst - to "beat the bushes" in the Caribbean, to match people with ideas with resources, and thereby to promote both indigenous and foreign investment in the region. USAID in general, and RDO/C in particular, have been less than enthusiastic about CPDF. In part, the lack of enthusiasm may be due to the fact that USAID is only one of several donors to the facility, and that the facility serves a region much larger than RDO/C's area of interest. In part, the lack of enthusiasm stems from doubts that CPDF's activities, although they lead to tangible achievements, are cost effective, particularly with the small projects in the small economies of the OECS/Barbados. This evaluation provides evidence that CPDF's activities exhibit a favorable benefit/cost ratio, even in the OECS/Barbados.

This introduction describes the background to the project, its goals and purposes, and the project design and strategy. Section B describes the implementation of the project, the clientele served, the outputs, costs, achievements and impact (including data pertinent to RDO/C's Private Sector Program Indicators). It also describes the relationships between the financial community and private business. Section C applies the "Generic Scope of Work" to the project, and Part D contains the evaluation conclusions and recommendations.

1. Project Goals and Purposes

The Caribbean Project Development Facility was created as an experimental project for the identification and preparation of new subprojects in the Caribbean region. It was initiated under the auspices of the United Nations Development Program in 1981; the executing agency has been the World Bank/International Finance Corporation, based in Washington DC. It was to last for about three and a half years, and to be funded by grants from a variety of donors, including USAID.

According to the 1981 project paper, the purpose of the Caribbean Project Development Facility was to "increase the supply of investment projects worthy of consideration for financing by prospective lenders and investors." The goals of the project were to "speed development of productive enterprises... as a means of generating productive employment; improving participating states' balance of payments through expanded exports of goods and services; and bringing about self-sustaining growth and development through the creation of strong medium-sized and smaller enterprises and strengthening entrepreneurial traditions."[1]

2. Project Background and Rationale

The CPDF was created as a result of a 1980 report of the "Task Force on Private Sector Activities," which was established by the Caribbean Group for Cooperation in Economic Development. The report noted the need for greater private sector investment in the region in order to achieve higher rates of growth, exports, and employment. The task force also explicitly recommended the creation of the CPDF. The rationale for the CPDF was that, although the Caribbean nations had relatively well developed financial sectors and good access to sources of financing both within and outside the region (including donor financing), prospective business borrowers continued to assert that they could not obtain adequate financing for their projects. An important finding of the task force was that many project proposals were not initially acceptable to financing institutions, due to inadequate financial structuring, technical/engineering designs, and/or identification of suitable personnel, suppliers or markets. The identified need was for "pre-project technical assistance," which could not, according to the task force, be adequately met by existing financial or development institutions.

The Task Force's specific recommendation, which the CPDF project was designed to implement, was as follows:

> The Task Force believes that a significant number of medium-sized private sector development projects (i.e., total investment costs of US$500,000 to about US$4-5 million) could be made ready for financing if there were facilities for project identification and development similar to those available through IFC for larger projects.[2]

3. Project Design

The central purpose of the project has been to increase the supply of investment projects "worthy of consideration for

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1. United Nations Development Programme Project Document for the Caribbean Project Development Facility, 1981, pp. 2-3.

2. Ibid., p. 7.

financing by prospective lenders and investors, public or private." Immediate objectives were as follows:

1. Accelerate investment in, and assure greater productivity and profitability of small-scale enterprises by providing technical assistance to project sponsors (entrepreneurs) at the project design stage;

2. Assist project sponsors, with the approval of the government of the concerned participating country, in obtaining equity and loan finance for soundly designed enterprise projects;

3. Assist project sponsors to identify appropriate technology, key personnel, foreign technical partners, and export markets as needed for prospective productive undertakings;

4. Assist prospective project sponsors in locating affordable sources of technical assistance for market surveys, feasibility studies, costing, accounting, financial management, and other business services critical to the establishment or operation of sound business ventures;

5. Be a focal point, or clearing house, of information on sources of pre-project technical assistance;

6. Advise governments of participating states on an _ad hoc_ basis concerning fiscal, regulatory, pricing or trade policies as they impinge on the viability of prospective enterprise ventures;

7. Assist governments and prospective enterprise sponsors in participating states in the dissemination abroad of information useful to prospective foreign investors.[3]

As an experimental project, CPDF was granted considerable flexibility during its 42 month mandate. It was expected that the Facility would assist in the development of productive ventures involving investments in the range of $500,000 to $5,000,000 throughout the Caribbean region. Many projects would be export-oriented, given the limits of the regional market, and foreign investors would often be involved. However, an important purpose of the project is to foster local entrepreneurship, and this was to be an important consideration in screening of applications for CPDF assistance.

It was roughly estimated that CPDF would be giving "at least cursory examination" to perhaps 60 to 120 project ideas per year

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[3]. Ibid, p. 3.

(an activity referred to as project identification or project creation"). Of these, "perhaps 20%" (about 12 - 25 projects) would undergo detailed project development and promotion with CPDF. Roughly 60% of the resulting project proposals (7 - 15) would be submitted to financial institutions for their consideration, and it was anticipated that of those referred, roughly 60% (5 - 10) would be eventually financed. It was proposed that the CPDF be measured (among other ways) on the basis of the number of projects developed which eventually received financing.

Project identification would involve finding existing project ideas, which would need to include: a) a project sponsor (usually an entrepreneur or company with access to "at least some of the required risk capital"; b) "an indication that the government of the host country actively favors the project and finds it consistent with its development objectives;" and c) preliminary evidence of technical and financial/economic feasibility.

In the absence of sufficient numbers of existing project ideas and sponsors, CPDF would more actively seek to develop new ideas for projects and then identify potential sponsors to undertake project development.

The greatest share of CPDF activity would be in the category of project development, which was anticipated to involve assistance primarily in overcoming key constraints to otherwise viable projects. In particular, it was envisioned that CPDF would assist in lining up suppliers, market appraisal and marketing advice, modification of process technology, locating key technical or managerial personnel, locating additional sources of finance, and applying for/negotiating needed changes in government trade, price, tax or regulatory procedures that would affect profitability.

In addition, CPDF would direct entrepreneurs or sub-project sponsors to various sources of technical assistance (or serve as a clearing house of information on sources of technical assistance), and provide advice on the dissemination of information for prospective foreign investors.

It was anticipated that CPDF would be staffed with a project manager, four investment officers, and two engineers along with necessary support staff. Project costs were anticipated at $4,484,000 over the 42 month life of the project (later increased to six years with increased funding).

Participating Caribbean nations were to include Anguilla, Antigua, the Bahamas, Barbados, Belize, Cayman Islands, Dominica, the Dominican Republic, Grenada, Guyana, Haiti, Jamaica, Montserrat, the Netherlands Antilles, St. Kitts-Nevis, St. Lucia, St. Vincent and the Grenadines, Surinam, Trinidad and Tobago, the Turks and Caicos Islands, and the British Virgin Islands.

B. IMPLEMENTATION OF THE PROJECT

USAID has obligated a total of $2 million in grant funds for the project ($1 million each for two triennia: 1981-1984 and 1984-1987) denoted "Accelerated Private Sector Assistance (538-0060). The USAID funds have represented about 30% of CPDF's cash budget of $6.615 million for 1981-87, but only 24% of the 1984-87 cash budget of $4.152 million and under 20% of the total triennium budget of $5.38 million (which includes in-kind contributions from the IFC and Technical Cooperation from CDB and other sources). USAID and the Inter-American Development Bank are the two largest funders of CPDF for the current period. The CPDF project used to be administered from AID/Washington, and was transferred to RDO/C in 1985.

1. Previous Evaluations

After the project had been in operation for almost two and a half years, it was evaluated by Mr. S.H. Wright (a very senior commercial banker from Great Britain), in February, 1984, who concluded that CPDF had:

> a good record of tangible achievement in terms of investment brought to (or close to) the point of being financed ... In the successful cases I have examined on the spot, the contribution of the Facility was either absolutely necessary or very important, at least to the extent of preventing undue delay.[4]

Mr. Wright noted that a unique feature of the facility is that it is not a financing agency, and that it serves as an advocate for the entrepreneur in negotiations with financing agencies. He stressed that CPDF and funding agencies (such as CFSC) are complements, not substitutes.

Mr. Wright also commended CPDF for valuable advice to clients (not always involving a written proposal), securing grants for feasibility studies, locating joint venture partners, advice to government agencies concerned with industrial development, and the general "demonstration effect" of CPDF proposals and negotiating strategies.

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4. S.H. Wright, "Caribbean Project Development Facility Evaluation," Feb. 1984

Mr. Wright recommended that CPDF begin charging fees for its service, and suggested that an "up-front" element be included to insure the seriousness of the client. He also recommended that CPDF cost out its activities on a "job-by-job" basis (even if only roughly), that it establish a more formalized relationship with its clients (involving an exchange of letters stating objectives and a plan of action), that it engage more local consultants, and that CPDF should monitor its clients after financing. Finally, he suggested that the "longer-term aim should be to encourage the development in the Caribbean private sector of the services and skills which the Facility is providing." Eventually, Mr. Wright envisioned a CPDF with a small core staff in Washington DC, acting as a clearing house for Joint Venture partners and expertise available in developed countries; and contracting with associated Caribbean consultants and professional firms to serve the Caribbean clientele on the spot.

CPDF has implemented most of the evaluation recommendations. It now charges a "success fee" of 2.5% of financing secured, has formalized its relationship with clients, and works more with Caribbean consultants. The Manager of CPDF reports that, as of summer 1987, CPDF had four Caribbean consultants on contract-one each from Dominica, Trinidad, Barbados, and the Dominican Republic, in addition to three Caribbean nationals out of a professional staff of eight.

2. Project Outputs and Costs

Over the past three years, CPDF staff have considered about 80-90 proposals per year. As of June 1987, CPDF had completed 63 "Summaries of Project Proposal" (SPPs), of which about 30 had "secured" funding (meaning financing institutions had approved financing, although conditions precedent might not yet be fulfilled). In the OECS and Barbados, 26 SPPs have been completed. Of these, nine projects have actually received funding. Of the funded projects, six are in operation (employing about 180 people), and three are starting up. Of the rest, eight proposals fell through or failed to obtain funding and nine are currently seeking funding. If the ratio of funded projects to non-starters holds, then about five of the projects currently seeking funding should succeed in obtaining it. The geographic breakdown of the 26 projects, and their outcome as of July 1987, is as follows:

COUNTRY	FUNDED	SEEKING FUNDING	FELL THROUGH	TOTAL
Antigua/Barbuda	4	2		6
Barbados	2	2	1	5
Dominica		3	1	4
Grenada	2	1	2	5
Montserrat		1	1	2
St. Kitts/Nevis	1			1
St. Lucia			2	2
St. Vincent			1	1
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TOTAL	9	9	8	26

A summary table of all 26 project proposals prepared for the OECS/Barbados, and their current status, is presented in Exhibit V.1. Divided by industry category, fully half of the 26 proposals were in agriculture or agro-industry, nine were in manufacturing or mining, and four were in the tourist industry. Just under half the projects were export oriented.

A range of financial institutions, including CFSC, commercial banks, DFCs, USAID/PRE, and the Caribbean Food Corporation (CFC) have funded CPDF projects. Of the nine funded projects, five, involving $3,853,000 in financing, were funded by commercial banks (all for established entrepreneurs), including $104,000 in IPIP funds. Two of the funded projects, involving $455,000 in financing, were funded by CFSC (both for less established entrepreneurs). Three projects, involving $1,898,000, (including both established and less established entrepreneurs), were funded by other resources, including other development finance institutions. Some projects had multiple sources of funding.

As of end July, 1987, CPDF had 34 potential projects in the OECS/Barbados in its pipeline, of which six were described as "advanced" (project proposals being prepared or likely to be prepared in the near future).

In addition to project proposals, CPDF has assisted entrepreneurs by arranging technical assistance for startups and funding for pre-feasibility and feasibility studies (which usually focus on project technical requirements and costs, while SPPs include an assessment of markets, projected revenues, cash-flow and other financial issues).

CPDF's clientele for project proposals has been divided by the evaluation team into the following categories:

a. Established Entrepreneurs who wanted to enter new lines of business or expand their production for export. Most

EXHIBIT V.I

CARIBBEAN PROJECT DEVELOPMENT FACILITY PROPOSALS FOR THE OECS AND BARBADOS

	PROJECT NAME	COUNTRY	INDUSTRY	DATE OF SPP	DESCRIPTION OF PROJECT	STATUS AS OF JULY 1987	FUNDING SOUGHT	PRINCIPAL FUNDING AGENCIES
	Fort Young Hotel, Ltd	Dominica	T-Hotel	82/09	Rebuild hotel	Seeking funding	$1,937,000	n.i.
*	Sealy Mattress	Antigua	M-Furniture	82/11	Reconstruction & expansion of plant	partially funded, in operation	$335,000	Barclays
*	Consolidated Indust.	Grenada	M-Softdrink	83/03	Startup - bottling soft drinks	Funded, in operation	$1,038,100	Various commercial
	Antigua Shrimpery, Ltd.	Antigua	A-Seafood	83/06	Startup shrimp farm	Funded, in operation, but temporarily suspended	$360,000	CFC/ USAID/PRE
	Santec Sentinal Int l	Antigua	M-Chemicals	83/06	Production of Detergents	Funded and in operation	$100,000	Barclays
*	FEB Caribbean	Barbados	M-Const.Mat.	84/02	Expand production for regional export	w/drew due to lost regional export markets	$321,500	BDB
	Dominica Timbers	Dominica	A-Sawmill	84/05	Expansion - lumber production and kiln	fell through	$260,000	n.i.
	Agro-Industries Ltd.	St.Lucia	A-Feed	84/06	Feed production	Fell through - funding preconditions not met	$100,000	(CFC)
*	Eastern Carib n Agencies	St.Vinc t	A-Agroind.	84/08	Expansion into Barbados export fresh produce	fell through	$175,000	n.i.
	Caribbean AgroIndustries	Grenada	A-Agroind.	84/12	Poultry production	judged too small for viability	$469,000	n.i.
*	Broilerson Ltd.	St.Kitts	A-Poultry	85/02	Startup of broiler production	Funded, just starting operations	$300,000	CFSC, CFC
*	C.O.Williams Quarries	Barbados	Mi-Quarry	85/02	Startup - quarry for aggregate	Funded, in operation	$1,000,000	BDB
	Bargas	Barbados	M-LNG	85/04	Startup production of liquified nat. gas	Government took over & plans to start up	$1,120,000	(CFSC)
	Geeta Agro Industries	St.Lucia	A-Agroind.	85/07	Startup - produce/bottle liquid food products	not funded	$1,333,000	(CFSC)
	Grenada Brands	Grenada	A-Agroind.	85/08	Expand fresh produce for local & export markets	fell through	$440,000	(CFSC,CFC, LAAD)
*	Spice Island Marina	Grenada	T-Marina	85/09	Acquire, restructure & expand marina	funded, in operation	$476,000	CFSC
*	Montserrat Bottling	Monts t	M-Softdrink	85/09	Startup - soft drink bottling	judged too small for viability	$300,000	n.i.
*	Florfol Barbados Ltd.	Barbados	A-Flowers	86/02	Major expansion- produce & export anthuriums	Partial funding approved, in construction	$481,000	BNB
*	Spice Island Farms Ltd.	Grenada	A-Flowers	86/07	Start-up - produce & export anthuriums	Equity arrangements not yet finalized	$805,000	HIAMP?
*	Crabbs Slipway & Marina	Antigua	T-Marina	86/08	Expansion of Marina & factory shells	Partially funded, in construction	$103,500	IPIP
*	Cheapside Furniture	Dominica	M-Furniture	86/08	Expansion of furniture production for export	funding awaits approval by Dom.AID Bank	$250,000	Dom. AIDBank?
*	Dominica Broilers	Dominica	A-Poultry	86/10	Startup up production of broilers	Gov t concessions secured, seeking funding	$111,000	HIAMP?
	Inn On the Beach	Barbados	T-Hotel	87/03	Expansion of hotel	need to reschedule previous debt	$425,000	n.i.
	Morgan Poultry	Monts t	A-Poultry	87/06	Startup - broiler production	Partial Funding available from ODA	$143,000	(UK)ODA
*	Sealy Mattress	Antigua	M-Furniture	87/07	Expand production, purchase factory space	funding likely from CFSC	$925,000	CFSC?
	Electro-Assembly	Antigua	M-elect cs	87/07	Startup production of circuit boards export	Seeking CFSC funding and IPIP space	$200,000	CFSC?
							$13,559,100	

* = visited by evaluation team; n.i. = none identified; A = Agro-industry; M = Manufacturing; T = Tourism

interviewees in this category reported that the quality of CPDF's proposals added enhanced credibility to business proposals and made a significant difference in the amount of time required to obtain financing. In some instances, CPDF approached established entrepreneurs to sponsor new project ideas which had not been seriously attempted before.

b. Less Established Entrepreneurs, small and medium-scale or new entrepreneurs who tend to lack contacts, equity capital, marketing and financial expertise, and for whom a CPDF-prepared proposal significantly increases the odds of securing financing.

a. Established Entrepreneurs

The majority of projects that succeeded in obtaining financing in the OECS/Barbados were in the first category. In these instances, CPDF may have assisted entrepreneurs who did not strictly need "assistance". In most cases, queried as to the alternatives to CPDF, these entrepreneurs reported that they could have prepared such a proposal on their own or with the assistance of local accountants. The quality might be as high or almost as high as CPDF's work. However, these entrepreneurs also reported that the CPDF label carried more credibility than that of local accounting firms, and financing institutions responded favorably more quickly and with fewer requests for followup information/verification than would have been required with locally prepared proposals. In two instances, entrepreneurs reported that the CPDF proposals were approved "without question." In border line cases, it might be said that CPDF assistance made a critical difference for those entrepreneurs who might not have bothered to carry their plans forward and seek financing without CPDF support. In the case of the funded projects visited by the evaluation team, it appeared that CPDF assistance made a marginal, not a critical, difference, and that the benefit of CPDF was thought of in terms of savings in the time and effort required to get the project off the ground.

There are cases where CPDF assisted entrepreneurs in securing funding commitments from financing institutions, but circumstances beyond the entrepreneur's (or CPDF's) control ultimately caused the project to founder. In one case, the government decided to take over the project from the original, private sector sponsors (Bargas). The Bargas project, had it remained in the private sector, would have been funded by CFSC. In another instance, a business plan to expand manufacturing production for regional export received loan approvals just as the Trinidad market closed, and the sponsor decided to shelve his plans (FEB Caribbean). In a third instance, the rebuilding and expansion of a mattress plant destroyed by a fire fell through when government, which had inadequately insured the building leased by the mattress company, failed to contribute to the rebuilding of the factory. As a result, the company had to rebuild out of its own resources and a variety of short/ medium term credits, and was unable to obtain the long term financing required for expansion (Sealy Mattress).

The evaluation team visited one entrepreneur to whom CPDF brought a proposal for sponsorship. CPDF had originally proposed the idea of producing anthuriums for export to George F. Huggins & Co. in Grenada, and had developed the proposal and located a joint venture partner from Hawaii. After the proposal was prepared, Huggins withdrew sponsorship (they were unable to arrange satisfactory management) and CPDF proposed the idea to another Grenada entrepreneur, Mr. George Williams, who already owns suitable land and some necessary infrastructure. A meeting between Mr. Williams and the Hawaiian partners to explore the prospects was due to take place in August 1987.

The more established entrepreneurs received most of their financing from commercial banks, but one, C.O. Williams Quarries, was financed by the Barbados Development Bank.

b. Less Established Entrepreneurs

The second category of entrepreneur is of more interest to RDO/C: the new, small or medium-scale entrepreneur for whom CPDF assistance is of considerable importance in the search for funding. In particular, these entrepreneurs benefit from CPDF's contacts and knowledge of international markets, sources of supply, and joint venture partners. Among the funded projects in the OECS, it appears that at least two fell into this category: Broilerson in St. Kitts and the Spice Island Marina in Grenada. In the case of Broilerson, an entrepreneur who had been in egg production wanted to expand into broiler production. Although experienced in the poultry business, broiler production (which is a significantly different operation than egg production) would be a new venture for him, and his skills are more technically oriented than financial. It is the judgement of the evaluation team that the Broilerson project would have had great difficulty in obtaining financing in the absence of CPDF assistance. The project obtained CFSC approval for a $105,000 loan plus additional loan and equity commitments totaling $388,000. As of July 1987, construction was nearly complete, and operations were due to start up quickly. Employment for at least 15 - 20 people is expected for the first year of operation. (See Chapter II, Section B.5.j).

The second project is Spice Island Marine Services, another CFSC funded project. An existing, but dilapidated marina was purchased by a former commercial airline pilot who had a significant amount of equity capital to invest and experience in yachting, but little previous business or management experience. Even with the help of certified accountants, it is unlikely that the marina project would have succeeded in securing funding in the absence of CPDF assistance. CFSC requested changes in the final proposal (suggesting that the restaurant be contracted or leased out), and then approved a $350,000 loan. The marina is in operation and just beginning to show a profit. Arrears which accrued during the first two years of operation are now being paid off. Employment at the marina (including the restaurant and minimart) is about 22.

There are several other new or small/medium-scale entrepreneurs who are currently seeking funding with CPDF assistance, including two in Dominica (Dominica Broilers and Cheapside furniture) visited by the evaluation team. Cheapside furniture sought funding from the Dominica AIDBank to build a new factory shell and from CFSC to purchase new equipment to expand into export production. Final approval for the AIDBank loan was delayed because Cheapside did not have proof of title to the land and had to spend several months to secure such proof. As of July 1987, title had been secured, and the loan was ready to be approved. The loan for new equipment was turned down by CFSC because they felt Cheapside was not ready for the export market. Dominica Broilers is another example of a poultry businessman with experience in egg production moving into broiler production. The entrepreneurs spent several months of effort in obtaining government waivers of a variety of taxes and duties and, having secured the waivers in July 1987, are now in the process of seeking finance from HIAMP, the Dominica AIDBank and other sources.

Other small-scale enterprises assisted by CPDF have fallen through. The proposed Montserrat Bottling Company received assistance from CPDF in preparing a proposal. After it was completed, the sponsors sought a license from Coca Cola and used, refurbished equipment from a source in Great Britain. Both Coca Cola and the equipment suppliers insisted that the project was too small to be viable, and the sponsors shelved the proposal.

In general, CPDF staff members reported that most of the less-established entrepreneurs needed a great deal of assistance in many different areas, and CPDF resources (even access to technical assistance) could not meet all their needs, especially in the areas of basic business management and marketing skills. For many such entrepreneurs, the assistance that CPDF has to offer has not been enough to make their project ideas viable, and CPDF has in many cases referred these entrepreneurs to training programs, small business advisors and other sources of assistance.

Of course, there is no sharp distinction between "more established entrepreneurs" and "less established entrepreneurs," but rather a continuum between the two. Nevertheless, many CPDF staff reported a dearth of middle-ranking entrepreneurs who both needed assistance and could make good use of the CPDF assistance available. At least one CPDF staff member of Caribbean background noted, however, that there has been a distinct flow of entrepreneurs from the ranks of the small and struggling firms into the middle levels, that the flow has been increasing over time, and that the long-established gap between the traditional commercial families and the struggling micro-enterprises was gradually being filled in.

c. Other CPDF Services

CPDF has also been active in arranging financing for entrepreneurs who need technical feasibility studies and technical assistance. CPDF has access to DM 1.4 million (about $770,000) from West German aid to finance studies, and to funds from the British Overseas Development Agency for both studies and technical assistance. It has a close working relationship with CIDA (Canadian International Development Association) for technical assistance, and Volunteers in Overseas Cooperative Assistance (VOCA) in the U.S. Recently, CPDF arranged for a VOCA poultry technician to spend several weeks with the Broilerson project in St. Kitts, who assisted in the startup of the project.

d. CPDF Costs

In a report to the donors written in September 1986, the management of CPDF provided a cost appraisal of its assistance. Dividing each year's full budget (including costs of in-kind contributions) by the number of project proposals prepared, unit costs were shown to be declining, but still quite high as of 1985, at $83,505 per proposal completed and $129,053 per proposal funded that year.[5] However, as stated in the report, these unit costs are "based on the erroneous assumption that the Facility did nothing else but completed projects."[6] These figures were considered by RDO/C personnel to be excessively high, particularly when compared with the size of projects in its area of interest, the OECS and Barbados.

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5. CPDF figures adjusted for changeover from fiscal year ending October 31 to calendar year ending Dec. 31, 1985.

6. CPDF "Special Report to the Donors on the Future of the Facility," Sept. 1986, p. 4.

At the request of the evaluation team, the management of CPDF prepared an estimated breakdown of average professional staff time by activity, as a proxy for total resource expenditure. The breakdown provided is as follows:

1.	Project promotion (seeking out potential business proposals to assist)	21%
2.	Review of potential proposals (screening businesses to assist)	20%
3.	Preparing project proposals (writing the SPPs submitted to financiers)	31%
4.	Follow up on funding (assisting sponsors in negotiations with financiers)	11%
5.	Providing TA, arranging TA, arranging for studies and other advice	12%
6.	Miscellaneous	5%
		100%

Utilizing the above listed breakdown of tasks and resources, CPDF proposal costs can be assessed in at least two different ways:

CPDF can be compared with a commercial financial services consulting firm which serves both a private clientele (project proposals and assistance in negotiating with financiers) and donor agencies (technical assistance and miscellaneous services). From this viewpoint, CPDF has the following cost categories: marketing/overhead (project promotion and review of potential clientele, at 41% of total costs), and production in two separate lines: 1) preparing SPPs and follow up on funding for private clients at 42% of total costs and 2) providing Technical Assistance and miscellaneous services as separate activities at the behest of donors at 17% of total costs (which will not be analyzed further). A proportional allocation of marketing/ overhead costs between the two service lines yields a new set of unit costs for project proposals (including both preparation of SPPs and follow up on funding), at $69,309 per proposal completed and $107,114 per proposal funded. Charging prices such as these to private customers would cover the full resource costs involved in providing service to them, including allocated overhead costs.

Alternatively, CPDF can be viewed as a development agency which provides a service both to donors and to the private sector, for which user fees should be assessed and charged. From this viewpoint, CPDF is performing the functions of bush-beating and catalyzing the synthesis of people and ideas and resources on behalf of donors, who wish to see more projects brought to the funding stage and are willing to defray the costs involved. (The technical assistance and miscellaneous services, as in the case described above, will not be analyzed further). The proposal writing and negotiation service, however, is of clear direct value to the identified private sector clients, who could be requested to pay for the full direct costs of the services which benefit them. In this analysis, the direct unit cost of the SPPs are $35,072 per proposal completed and $54,202 per proposal funded. Charging prices such as these to private customers would cover only the direct costs involved in providing service to them, leaving donors to cover the "overheads" of project promotion and screening.

The above costs can be compared with the benefits of CPDF assistance, described below.

3. Evidence of Project Impact

a. CPDF Impact at the Firm Level

In RDO/C's target area, the OECS and Barbados, CPDF assistance has contributed to the startup or expansion of nine businesses, involving financing totaling $6.206 million and total investments of about $8.139 million (which may include property acquisition costs - a transfer of assets and not an "investment" in economic terms). Of the nine funded projects, six are currently in operation, and three are in construction or about to begin operations. Summary statistics on total investment and credit received (RDO/C private sector program indicators), as well as employment for CPDF projects which obtained funding are presented in Exhibit V.2. (Sealy Mattress was the only identified contributor to the third indicator - manufactured exports. Sealy exported approximately $1,047,000 in manufactured goods, almost all to Barbados, Trinidad, and the other OECS countries).

Employment at the nine funded projects totaled almost 180 full time job equivalents for the year ended June 1987, of which about 80 are clearly new jobs, created at least in part as a result of CPDF assistance. Another 80 jobs would be more accurately described as "saved" jobs: employees at Sealy Mattress Co. in Antigua might have lost their jobs after a fire destroyed their plant if the project sponsor had not obtained funding to rebuild. (Of the balance, the evaluation team is uncertain whether the employment is created, saved, or sustained). The three projects starting up are expected to employ about 40-50 more people (about 20 at Broilerson, 5 - 10 at Florfol, and 15 - 20 at Crabbs Slipway and Marina). At the firms which were in operation and interviewed by the evaluation team, average employment earnings were about $500/ month or $6000/year. If the figures obtained are representative of CPDF projects in the OECS/Barbados, then total employment income at CPDF projects in the region is roughly $1,000,000 per year. Many women are employed in the manufacturing jobs and at the restaurant and minimart at Spice Island Marina.

EXHIBIT V.2

CARIBBEAN PROJECT DEVELOPMENT FACILITY FUNDED PROJECTS IN THE OECS AND BARBADOS

	PROJECT NAME	COUNTRY	INDUSTRY	ESTIMATED TOTAL INVESTMENT	FUNDING RECEIVED	FULL TIME JOBS YEAR-ENDED 7/87
*	Sealy Mattress	Antigua	M-Furniture	$667,000	$599,000	80
*	Consolidated Indust.	Grenada	M-Softdrink	$3,846,000	$3,000,000	30
	Antigua Shrimpery, Ltd.	Antigua	A-Seafood	$600,000	$360,000	8
	Santec Sentinal Int'l	Antigua	M-Chemicals	$450,000	$100,000	14
*	Broilerson Ltd.	St.Kitts	A-Poultry	$493,000	$493,300	0
*	C.O.Williams Quarries	Barbados	Mi-Quarry	$1,150,000	$1,150,000	25
*	Spice Island Marina	Grenada	T-Marina	$703,700	$350,000	22
*	Florfol Barbados Ltd.	Barbados	A-Flowers	$60,000	$50,000	0
*	Crabbs Slipway & Marina	Antigua	T-Marina	$169,500	$103,700	0
				$8,139,200	$6,206,000	179

* = visited by evaluation team; A = Agro-industry; M = Manufacturing; T = Tourism

Sources: CPDF "Report to Donors," 9/86 and interviews with project sponsors and financiers

Although very few women entrepreneurs have gone to CPDF for assistance, there are several husband-and-wife teams (and one sister and brother team) who own or manage CPDF projects.
About half of the project proposals prepared by CPDF were export-oriented or foreign exchange earners. Of the nine projects funded, two are foreign exchange earners (Spice Island marina, bringing in about $47,000 in hard currency in 1986/87 and Sealy mattress, which exported over $1 million within the region in 1986). Two will be foreign exchange earners when in operation (Florfol Barbados and Crabbs Marina). Of the remaining five funded projects, four are import substitution projects (Antigua Shrimp, Broilerson, Consolidated Industries, and Santec Sentinal) and one has little significant foreign exchange impact (C.O. Williams Quarries). Only one of the projects, Sealy Mattress, exports manufactured goods, and all those exports are within the Caribbean region.

CPDF has helped to introduce or encourage several new products in the OECS, including the anthurium projects, the broiler projects, and shrimp farming. Linkages with other local firms are still sparse, but CPDF has been trying to promote linkages between local lumber industries and timber, and between livestock/poultry projects and the feed industry.

Personnel at funding agencies which have received CPDF assisted proposals report that they find CPDF work to be of very high professional quality, although occasionally lacking in a full appreciation of Caribbean business conditions. CFSC has referred some potential clients to CPDF for assistance. The Director of the Caribbean Food Corporation (CFC), based in Trinidad, told the evaluation team that many of the agribusiness entrepreneurs who make up their clientele, although they are technically proficient, are generally lacking in business management and financial skills. For most of them, the preparation of a business proposal could not be undertaken satisfactorily without assistance, which CFC staff members are often called upon to provide. If CPDF has worked with a client, however, CFC staff have only to appraise the proposal, which saves about 8 - 10 person weeks of CFC staff time, and speeds the approval process by about 12 - 14 calendar weeks. If we assume that the CFC experience with CPDF is typical, that average professional salaries in such Caribbean agencies are about US$20,000 per year, and that overheads account for an additional 100% of salaries, then the CPDF assistance saves financing institutions about $6,000 per proposal considered.

The value of the benefits of CPDF assistance is very difficult to establish, and hinges on two related, difficult questions: What is the degree of "causality" or "additionality" associated with CPDF assistance? Or more precisely, to what extent does a CPDF proposal (as opposed to a proposal prepared by local consultants or accountants) increase the probability of a proposal getting financed and implemented? These questions are critical to a rigorous valuation of CPDF assistance. Order-of-magnitude heuristic estimates may be attempted along the following lines:

b. Market Valuation of a CPDF Proposal

Of the 17 CPDF projects in the OECS on which a final funding decision was made, ten received funding approvals (of which one fell through after loan approval but before any investment was made), and seven failed to secure funding or fell through before funding preconditions were met. Disaggregated in a different way, seven proposals were written for more established entrepreneurs and ten were written for less established entrepreneurs. All seven of the established entrepreneurs' proposals secured funding approval (including the one which fell through after loan approval), and three of the less established entrepreneurs' proposals were funded. On the basis of the OECS/Barbados grouping, it appears that the combination of an established entrepreneur with a serious business idea, equity resources, and with CPDF proposal assistance, is a near-certain winner in the race to receive financing. A less established entrepreneur with CPDF proposal assistance has a 30% change of receiving funding (the lower odds of obtaining financing probably reflecting in part the lower odds that, even with a well designed project, a less established entrepreneur will be able to implement and sustain a profitable operation). The evaluation team did not have the resources to determine the odds of obtaining financing for an entrepreneur <u>not</u> assisted by CPDF (which would permit a more rigorous, Bayesian probability analysis of the expected value of CPDF assistance), but made a number of assumptions instead, as described below.

Given a decision to attempt a new investment and to seek professional assistance in preparing the proposal, the benefits to the more established entrepreneurs of CPDF assistance compared to a private consultant or accounting firm, could include a saving in cash cost and/or the time saving and associated risk-saving in getting financing approved.

The average investment cost of CPDF business proposals for established businesses was about $1,000,000. Loan finance covered an average of 80% of the investment costs, and involved terms, typically, of ten years at 11% interest per annum. Say an investment will place in year zero, break even (before loan service) the first year, and earn 20% per annum (before loan service but with a tax holiday) for the next fourteen years. The equity investments involved amount to an average of 20% of total investment, or about $200,000. As an alternative, those funds could be invested in long term bonds yielding about 7% per annum. The net present value of that new business investment, discounted at 7% over fifteen years, would be almost $450,000.

CPDF charges a success fee of 2.5% of funding secured. The cost to the business for a CPDF proposal is therefore about $20,000. A private consultant or accounting firm, charging $300/day and taking six and a half weeks to complete a similar proposal would cost $10,000 or less than half the CPDF charge. However, a proposal written by a local firm may involve followup requests from the bank for data, involving another two weeks of time on the part of a top executive, and double the calendar time required for funding approval from, say, six weeks to twelve. If a top executive in Barbados is remunerated at a rate of $100,000/year (including perks), then two weeks of his time costs almost $4000; if the marginal opportunity cost of his time (numerous pressing concerns involving other lines of business, which cannot be delegated to subordinate staff) is 100% higher, then the cost of two weeks of time may be as high as $8,000, which brings the two alternatives sources of professional proposal writing service into closer range on cost.

More importantly, however, the time lag in funding approval involves an increased risk (say 10%) of lost business deals critical for project viability. A 10% risk of lost, critical business opportunities associated with a <u>non</u>-CPDF proposal (which takes longer to get financing approval) would be valued at 10% of $450,000 or $45,000.

The following table summarizes the two alternative sources of proposal writing service for a more established entrepreneur:

	CPDF	Other Consulting or Accounting Firm
Cash Price	$20,000	$10,000
Extra Executive time		$ 8,000
Risk of losses due to delays in funding approval		$45,000
TOTAL COST:	$20,000	$63,000

The greater the expected rate of return on the investment, the greater the time constraints pressing on a busy executive, and the greater the risk of lost business opportunities due to slow loan approvals (competitive bids on lucrative contracts, or the risk that competitors may arrive on the scene first), the greater the value of a CPDF-prepared proposal.

These figures, although speculative, provide an indication of the reasons a well-established Caribbean entrepreneur may prefer to pay a 2.5% success fee to CPDF than pay half that amount to a local firm which is (at best) less prestigious and therefore less credible with financing agencies. In the developed world, firms which provide consulting services similar to CPDF's often receive part of their remuneration in the form of corporate shares. For a well established Caribbean firm, even a 5% success fee (or an up-front fee plus a success fee) for CPDF proposals should be viewed as good value for money, and would probably cover CPDF's direct costs in proposal preparation (CPDF proposals outside the OECS are much larger, and earn higher success fees than those firms listed above).

The donors should be reminded that even greater benefits accrue to the economy as a whole: lost business deals mean lost employment, output and foreign exchange earnings as well as lost profit.

Of the ten CPDF project proposals in the OECS/Barbados which were sponsored by less established entrepreneurs and on which a funding decision was made, three (or 30%) actually received funding. The value of CPDF assistance for such entrepreneurs is the increased probability of receiving financing for a potentially profitable investment. Funding decisions are, of course, made on the basis of specific criteria, most of which are difficult for a less established entrepreneur to meet (by definition). The lending criteria are also out of the control of CPDF, although its own screening process takes the important criteria into account.

The average CPDF-assisted, funded project for less established entrepreneurs involved a total investment of $600,000, with loan financing for $400,000 with terms typically involving an interest rate of about 10%, repayment over 13 years and one year grace. Say the investment breaks even (before debt service) in the first year of operation and yields 17% per annum before debt service for the next fourteen years (the small projects of less established entrepreneurs typically involve higher risks and/or lower yields than do those of the more established entrepreneurs). The equity funds (average of $200,000) could have been deposited at about 3% as an alternative to a business investment (less established entrepreneurs have fewer opportunities to invest their surplus funds than do their better-established brethren). If financing is made available, the Net Present Value of the business investment, discounted at 3%, is over $300,000.

Most of these marginal entrepreneurs would have great difficulty paying a consultant or accounting firm up front for proposal preparation. From the point of view of a struggling entrepreneur, a CPDF proposal will cost 2.5% of financing obtained ($400,000) or $10,000 if successful and the fee will be built into the financing package; a similar proposal prepared by a local consultant or accounting firm might cost somewhat less, say $5,000, but would have to be paid up front, whether successful or not. Additional assistance might be available at donor-supported financing institutions (costing the financing institutions about $6000 - see above).

If the chances of clinching the financing necessary for the investment are 30% with CPDF assistance (expected value of prospect is 30% of $300,000 or $90,000) and would have been, say, 10% with alternative sources professional assistance (expected value of prospect is 10% of $300,000 or $30,000), then the expected value of having CPDF assistance compared to the alternative sources of assistance may be on the order of $60,000. By the same token, the expected cost to the entrepreneur of a CPDF proposal is 30% (the odds of getting the funding and therefore of having to pay the CPDF success fee) of $10,000 or $3,000.

The following table summarizes the two alternative sources of proposal writing service for a less established entrepreneur:

	CPDF	Other Consulting or Accounting Firm
Expected Cost	$ 3,000	$5,000
Extra risk of failure to get funding approval		$60,000
TOTAL EXPECTED COST:	$ 3,000	$65,000

The $65,000 might be considered the market value of the CPDF proposal, and does not include the roughly $6,000 worth of development financing-agency staff time which might be required with an alternative proposal.

c. Value of the CPDF Label

Several of CPDF's clients and critics believe that project proposals of equal quality can be prepared by local professionals at a price lower than that charged by CPDF. Loan officers at financing institutions, however, given a sound business idea and at the margin, tend to respond more favorably to a CPDF proposal than they do to locally prepared proposals. This may be due to any or all of the following reasons: 1) CPDF proposals are of demonstrably higher quality, containing more pertinent information, more rigorously analyzed and better presented, than those prepared by local professionals; 2) CPDF proposals are prepared by senior international professionals who know international markets and sources of supply, and who can and do check, screen, and add to data supplied by the prospective borrower and make necessary adjustments; 3) CPDF proposals are prepared by a prestigious international institution.

Most interviewees (CPDF clients, financing agency personnel, and outside observers) say that CPDF proposals are very rigorous and professional. Many observers said that local professionals could prepare work of comparable quality at a lower (cash) price. For the proposals of more established entrepreneurs that concern primarily the local market and local sources of supply, CPDF might not always be the most cost effective source of professional service. However, for proposals for less established entrepreneurs or those aimed at the extra-regional export market, or proposals which require imported inputs at competitive prices, CPDF's international personnel and contacts may offer a distinct advantage over Caribbean professionals, unless the latter have extensive international experience and contacts of their own (and some of them do). At this point, the comparison may come down to a guess (made by loan officers) as to how rigorously the consultant (CPDF or local) check and screen the data. In the end, loan officers make subjective judgments about the consultants, based on reputation, just as they make subjective judgments about the borrowers themselves. The financiers, for what ever reason, often display a greater degree of faith in the CPDF than in local professionals. Why? Either they have made considered comparisons, or when faced with choices and in doubt, they are simply following what seems to be a "safe" course of action by opting to work with the prestigious, international alternative ("No one is ever fired for buying IBM/hiring a Harvard MBA/promoting a West Point graduate..."). For reasons that are partly objective and partly subjective, CPDF has inspired confidence and created a "halo" over its own head as seen by potential clients and financing institutions alike. Either way, this confidence has real market value.

For those interested in the long term development of local capabilities in project preparation, the next question is whether the halo is transferable. CPDF has built up a reputation over the past five years, based primarily on a small staff with a relatively low turnover. Newer staff members of CPDF stress the need to build up their own professional reputation in each territory they work in. The 1984 evaluation of CPDF urged that more work be contracted out to Caribbean consultants, so that local capabilities can be built up and the need for CPDF can be gradually reduced. As of this writing, CPDF has four Caribbean consultants working on CPDF proposals, and three Caribbean nationals on its eight-member permanent staff. The donors should urge that this trend be continued.

Some observers have suggested that, as an alternative or supplement to CPDF, project development capabilities be enhanced within financing institutions such as the DFCs, CFSC, and other agencies within the region. As was pointed out in the 1984 evaluation of CPDF, one of the Facility's unique attributes is that it "sits on the same side of the table" as the project sponsor and acts as an advocate in presentations to and negotiations with financing institutions. The financing institutions could be described as having an inherent bias against assuming risks and even against devoting resources to developing what appear to be very risky propositions. CPDF, on the other hand, can spend time on what may at first appear to be a high-risk prospect, and assist the entrepreneur in developing the project design to utilize and enhance potential strengths and minimize or avoid potential weaknesses. A financing agency, given the same prospect, would be more likely to dismiss it out of hand. Thus, although it wouldn't hurt to improve the capabilities of financing agencies to develop projects, a project development capability within a financing institution should not be viewed as an alternative to independent, "advocate" capabilities, which could include both CPDF and other consultants.

4. Difficulties Encountered

Along with CPDF's success, there have been a number of frustrations and disappointments which should be mentioned. These have included government regulations and procedures, difficulties in collecting the CPDF success fee, and a dearth of target-group entrepreneurs to assist.

a. Government Regulations and Procedures

A difficulty which was often mentioned during interviews with CPDF's clients was a frustration over delays incurred in attempting to obtain government permissions, licenses, concessions and temporary waivers from a variety of taxes and duties (and, in the case of many import substitution businesses, protection from imports). Specific delays cited have included the following:

1. Government permission to shift from sugar production to other agricultural production on land owned by the sponsor (which appears to have contributed to a sharp scaling back of the size of a new operation and caused major aggravation on the part of the project sponsor);

2. Permission to shift from sugar production to other agricultural production on land leased from the government;

3. Numerous licensing and registration requirements, often involving several different agencies for one project;

4. Waivers of import duties on essential imported inputs which can not be locally obtained (several instances);

5. Waivers of corporate taxes necessary to retain sufficient profits for expected future equipment repairs and replacement (related to slow depreciation allowances);

6. Waivers of consumption taxes on goods produced for local consumption.

A significant portion of CPDF staff time is spent in helping project sponsors negotiate licensing requirements, waivers and incentives of the sort listed above. The first three items could be rectified at little cost to governments; changes in the taxes and duties, however, would have implications on government budgets. Fiscal policies in the Caribbean can be compared with those prevailing elsewhere in the world. Although corporate and other tax rates in the Caribbean are often no higher than those prevailing elsewhere in North America and Europe, they frequently lack any automatic investment incentives. All requests for concessions (quite necessary in many cases for exporters who will be competing in international markets) are considered on a case-by-case basis which is time consuming at best and an invitation for favoritism or corruption at worst.

In the process of applying for needed permissions and concessions, many entrepreneurs take the opportunity to request protection from imports as well. In some instances, the protection granted has taken the form of restrictive quotas on imports, often involving a complete ban on the importation of competing goods. It should be noted, however, that such extreme forms of protection have not been found in CPDF proposals, but have been negotiated directly between the entrepreneur and government officials.

b. Collection of the CPDF Success Fee

A second major source of frustration for CPDF is in the collection of the 2.5% success fee on financing secured with CPDF assistance, crucial to CPDF's future prospects for sustainability. CPDF management reports that since the fee was introduced, only about 25 - 30% of clients who have been billed the fee have paid. Collection directly from the client is difficult, because once financing has been obtained, some clients figure that they have no further need of CPDF and that payment cannot be enforced. Some financing institutions have been reluctant to finance a payment to CPDF, worrying that the client will not repay for that expenditure. CPDF is now insisting that the success fee be incorporated into all financing packages, signed by both the client and the financing agency. Nevertheless, there are occasions when projects with CPDF proposals fail to obtain financing (e.g., cases where sponsors failed to meet conditions precedent for loans). Such failures represent at least a partial waste of CPDF resources, and could perhaps be reduced with the introduction of an up-front fee or fee for delivery of the SPP.

c. Dearth of Target Group Entrepreneurs

A third, more general difficulty faced by CPDF has been the dearth of Caribbean entrepreneurs who are both in need of assistance and in a position to make use of CPDF assistance. As discussed in section B.2.b, above, CPDF staff find that many of their potential clients need more assistance than CPDF can provide. CPDF can refer such entrepreneurs to sources of training, technical assistance, and small business advice. It has even been willing in many instances to assist entrepreneurs with proposal development who have little hope of obtaining financing. Such entrepreneurs learn a great deal from the exercise, but cannot always show an immediate, tangible benefit from CPDF assistance. As more entrepreneurs graduate from the ranks of micro-business into small and medium scale formal sector business, CPDF impact can be expected to increase; but the evolution is slow, and contingent at least in part on other programs of donor assistance at the small business level.

C. APPLICATION OF GENERIC SCOPE OF WORK

1. Project Design Elements

A general description of the Generic Scope of Work used in LBII's evaluations of RDO/C's private sector projects is contained in Chapter I, Section B above. The goal of the Accelerated Private Sector Assistance Project is most closely related to the Private Sector Program Economic Development Goal:

> To increase the contributions of privately owned business establishments and the institutions which serve them to employment, production, productivity, net foreign exchange earnings, and/or improved standards of living in specific Caribbean countries.

In the Project Document for CPDF, it is stated that the underlying objectives of the project are to:

> speed development of productive enterprises, both public and private, in participating states, as a means of generating

productive employment; improving participating states' balance of payments through expanded exports of goods and services; and bringing about self-sustaining growth and development through the creation of strong medium-sized and smaller enterprises and strengthening entrepreneurial traditions.

More specific purpose elements could be said to include the following:

- To encourage local investment
- To attract foreign investment
- To develop investment promotion skills
- To identify and tap new markets
- To improve business management skills
- To encourage risk-taking and entrepreneurship
- To reduce imports
- To promote exports

The outputs of the project are, most importantly, assistance in the preparation of business proposals, including assistance in locating suppliers, markets, personnel and other sources of training and technical assistance, and assistance in soliciting financing for business ventures.

2. Causal Paths

Assistance in preparing business proposals, and assembling a bankable package is primarily directed to encouraging local investment, although the packages prepared by CPDF often involved locating a foreign investment partner, if this would be an important source of capital, expertise and/or access to markets. In the process of preparing investment proposals, entrepreneurs working with CPDF personnel would learn investment promotion skills and in many instances, more general business management skills as well. Providing assistance of this nature to entrepreneurs was also hoped to encourage risk taking and entrepreneurship, by assuring potential businesspeople that sound business plans could be presented in a form which could be quickly assessed and approved by existing financing institutions.

It was an important assumption of the project design that, although there was sufficient liquidity in most Caribbean nations to support considerable new business investment, many entrepreneurs in the region with viable business ideas had been unable to prepare a well-designed business plan to access the available finance. If such business plans and financing proposals could be prepared, then businesses would receive the financing they needed for new investment. The new investment would contribute to new business growth and employment. Location of new suppliers, personnel, and technical assistance (important aspects of improved business plans) would contribute to increased production and productivity.

In preparing business proposals, CPDF personnel would often (it was expected) identify new markets and assist entrepreneurs in preparing plans to tap those markets. The resulting increase in business sales would promote business growth, which would in turn allow for increased production and employment. Many of the most lucrative markets would be outside the region, such that CPDF would also actively assist in promoting exports. In other instances, new markets would be local, substituting for imports. Both increased exports and reduced imports would tend to improve each nation's balance of payments position. Extra-regional exports, in particular, permit a much larger market than would be available within the Caribbean region, allowing for scale economies, resulting in many cases in increased productivity.

3. Evaluation Evidence

The outputs of the CPDF project in the OECS and Barbados have included 26 project proposals (including assistance in identifying suppliers and markets), and a wide range of help in accessing funds for feasibility studies and technical assistance.

On the basis of the evaluation evidence presented above, it appears that CPDF's assistance has improved the chances for less established entrepreneurs of getting financing for their business ventures, and by reducing costly delays in the loan approval process for more established entrepreneurs, has reduced the costs of getting new ventures on line. CPDF has thereby assisted in promoting local investment and has encouraged risk-taking and entrepreneurship in the Caribbean. CPDF has also assisted Caribbean entrepreneurs in finding U.S. joint venture partners in at least one instance in the OECS (still in the negotiation stage).

In the course of assisting entrepreneurs in preparing proposals for financing, CPDF has improved investment promotion skills, especially among small and medium-scale entrepreneurs who have never before had the opportunity to work closely with skilled professionals in developing business plans. In several instances, even more established entrepreneurs reported that they gained insights into the organization of their business and the possibilities for re-organization or restructuring in the process of developing business proposals with CPDF assistance.

Many entrepreneurs credited CPDF most particularly with their assistance in identifying or defining, and then preparing to tap new markets for Caribbean products - both within the region and outside it. This aspect of business development is considered crucial for business success by Caribbean entrepreneurs and outside experts alike.

Most of the CPDF proposals had a significant foreign exchange impact either in terms of promoting regional exports (Sealy Mattress), foreign exchange earnings (such as the two marinas) or import substitution (such as Broilerson). Only one CPDF project had no significant foreign exchange impact (Williams' Quarries).

In assisting projects at the development and financing stage, it appears that CPDF has had a significant impact in increasing the supply of funded business projects in the region. Six CPDF projects in the OECS/Barbados are currently in operation (another three are starting up operations) and appear to be viable, growing enterprises. Thereby, CPDF has contributed to the economic development goals of increased employment, incomes, foreign exchange earnings and other associated benefits.

D. <u>CONCLUSIONS AND RECOMMENDATIONS</u>

1. CPDF has been largely successful in its goal of increasing the supply of bankable projects in the region, and it appears that CPDF costs, although relatively high, are easily outweighed by the benefits of its activities.

On the basis of the evaluation evidence collected in the OECS and Barbados, it appears that CPDF has indeed increased the supply of bankable projects in the region, leading to new investments, and increased employment, foreign exchange earnings and other economic benefits. The quality of CPDF's work has been consistently rated as very high, and CPDF's costs, although higher than those of Caribbean accounting and consulting firms providing similar services, appear to be outweighed by the benefits, considered in terms of increased probabilities that a business proposal will be funded and therefore lead to new benefits. In addition, personnel at financing agencies, including those disbursing donor funds, report that CPDF proposals reduce the amount of time they must spend in loan appraisal and allow them to consider prospects which they might have disregarded otherwise.

2. CPDF proposals have calculable cost and a demonstrable market value. Depending on the willingness of donors to defray expenses, and the resources of the client, CPDF may wish to assess and charge "user fees" which cover most or all the direct costs of providing proposal writing and finance-negotiation assistance.

The combination of an established entrepreneur as project sponsor and a CPDF proposal yields perhaps the highest possible probability that a proposal will be financed in a minimum period of time. Both the enhanced probability of securing funding and the time saving factor have evident market value. It would be appropriate for CPDF to undertake a thorough analysis of its costs, and attach a set of user fees to the services rendered to well established private firms which will cover, at a minimum, the direct costs associated with the provision of these services. This may involve both an up-front element and a contingent success fee. In the interest of promoting the prospects for less established entrepreneurs, it may be appropriate for CPDF to charge the success fee only, with donor resources subsidizing the balance of the costs. If donors are not willing to subsidize such operations, then a higher success fee could be charged to the less established firms. In order to demonstrate the benefits of CPDF activities to the donors, CPDF should monitor the performance of firms assisted against established targets for total investments, new business startups, employment generation, export earnings and other measures of bottom line impact.

3. CPDF should be encouraged to continue and accelerate its use of Caribbean contractors in its activities.

In the long run, CPDF activity, along with assisting Caribbean entrepreneurs directly, should contribute to the build up of a local capability to perform project development and proposal preparation services. There are a number of Caribbean accounting and consulting firms and individual professionals whose abilities, judgement, experience, and contacts are on par with those of CPDF staff, but who lack the prestige of association with an international agency. CPDF contracts with such individuals and firms can serve the dual purpose of building up local capabilities and reputations, and perhaps lowering CPDF costs as well. CPDF should consider establishing an office in the Caribbean, staffed by at least one permanent CPDF professional, and supplemented by a growing pool of Caribbean contractors.

CHAPTER SIX: GENERAL CONCLUSIONS, RECOMMENDATIONS AND LESSONS LEARNED

Conclusions and recommendations specific to each project evaluation are contained in the respective chapters. This section contains those more general conclusions derived from evaluation of the Financial Cluster as a whole. Recommendations based upon these conclusions are offered, as well as a summary of the lessons that can be learned from the experience gained in implementing these diverse projects.

A. CONCLUSIONS

1. Provision of long term credit for direct lending to industrial, commercial, and service establishments has found a ready market in RDO/C's target area, and has led to significant development impacts. Availability of credit of this kind was found to be a necessary but not a sufficient condition for new investment and economic development.

Entrepreneurs reported that the CFSC and EIP II loans were critical to the establishment or expansion of their business; many reported that they were unable to raise financing at commercial banks; all described CFSC/EIP II lending terms as more favorable than those of commercial banks. CFSC was also described as more responsive and flexible than CDB and the DFCs, and capable of handling larger loans than the DFCs.

However, investment prospects in the OECS and Barbados are still limited under current conditions. Constraints reported in the past by financiers included a lack of sound, bankable business proposals. This constraint has been and is being addressed by CPDF, and the combination of CPDF and CFSC (and other financing agencies) has been effective in increasing the supply of funded projects in the Eastern Caribbean. Other constraints which remain largely unaddressed include a lack of equity financing, a lack of entrepreneurial and management skills in many of the OECS territories, the small size of local markets and lack of access to extra-regional markets, and a wide variety of government-imposed constraints or disincentives to business growth (which can be waived, but only after time-consuming petitioning). The impact of the availability of long term financing will continue to be limited as long as the above-listed constraints exist.

2. In some cases substantial resources were obligated to projects that were poorly designed or based upon unwarranted assumptions.

For example, IPIP was based upon two assumptions which proved to be unfounded: 1) that the investment climate in the OECS would be so attractive as to encourage a major demand for industrial space from foreign investors; and 2) that there existed a demand from private foreign investors for funds to invest in factory shells which they could build more quickly and more cheaply than those constructed by the public sector. It is true that these assumptions were made in a climate of widespread general optimism, but both assumptions could and should have been thoroughly tested before obligating $10 million dollars to projects dependent upon their validity.

In the case of CFSC, $5 million was provided to discount commercial bank loans, despite evidence that there would be little or no demand for these funds on the conditions under which they were being offered.

3. The likelihood that donor-funded private sector projects will be successful can be substantially increased when local business leaders are involved in the design and execution of these projects. However, local businessmen may be much more concerned with the efficiency, sustainability, and conventional achievements of the institutions which they control than they are with experimentation, social equity, and with USAID objectives which they do not necessarily share.

When capable business leaders directly involve themselves in USAID-funded private sector projects, it is likely that implementing institutions which they guide will be relatively well run, cost effective, and customer-oriented. Business leaders may be expected to focus on the achievement of development objectives in the practical and conventional terms: more investment, more exports, more jobs, good repayment records, adequate profitability - and to seek these results by the means in which and through the people in whom they have the most confidence. They may be unwilling to experiment with activities and strategies that have not yet been proven in their region. They may treat some USAID concerns as "ideological" and others as inspired more by a desire for favorable publicity than results. They may be particularly intransigent where recommendations for change are seen to come from persons lacking in business experience and in willingness to take responsibility for consequences. In these respects, organizations supported by local business leaders may be among the least malleable and pliable of the implementing institutions with which USAID deals. In short, businessmen can be expected to behave like businessmen.

4. If local currency devaluation occurs, loans denominated in U.S. dollars can be detrimental to projects which do not earn foreign exchange directly or for which prices cannot be effectively adjusted to service foreign debt.

This basic principle of international commercial lending should not be ignored because a project is directed to development or because the funding agency has no easy access to local currencies.

Also, demand for funds offered by credit projects is restricted by fear of devaluation. While expectations of currency adjustments varied from borrower to borrower, they were least taken into consideration by less experienced sponsors of start-up projects, which are also those least able to bear the burden. The real target projects--those with no alternative source of funding--are rendered even more vulnerable.

From a development standpoint and in order to minimize at least one of the many risks not subject to control by project sponsors, it would be desirable to fund in local currency at least those portions of projects not involving imports. When local currencies are not directly available to USAID, they can often be raised through guarantees, currency swaps, and other techniques which USAID can facilitate.

5. It is preferable to contribute resources to development projects in such a way as to increase the mobilization of domestic resources and not contribute to continued dependence upon donor or international external funding.

Opportunities to encourage local funding were overlooked in the design of several cluster projects. Funding could be provided by public and private pension plans and social insurance funds, private insurance companies, trust companies and other institutions public and private which have a need for low risk, long term assets. These institutions could be encouraged to deposit in CFSC by a USAID guarantee or equivalent (mechanisms have been arranged in other countries to avoid conflict with regulations prohibiting direct guarantees by USAID). These arrangements would result in higher nominal interest rates than those now charged on the USAID loans, but the effective rates may be lower when taking devaluation risk into account. Such arrangements, including a number of possible variations, would be the classical first steps in introducing a new borrower to the markets, which in themselves need development and new instruments. As depositor/lenders become familiar with the new borrower's instruments, it is possible to introduce changes which will reduce or eliminate dependence upon USAID support, mobilizing domestic financial resources. Other techniques for leveraging the impact of USAID funding include the use of quasi-equity to support other borrowings.

Productive as the straight lending for repass to projects can be, the impact is only dollar for dollar and does not contribute to a self-sustainable project. Introduction of these additional approaches, while not easily accomplished, can eventually result in greater leverage of USAID funding, some contribution to the development of local financial and capital markets, and the increased likelihood of creating a financial institution which will not be wholly dependent upon USAID funds. Not only is the project more self-sustaining, the countries are encouraged to maximize usage of their own resources for development and self-reliance.

Different funding strategies for IPIP and CFSC might have resulted in even greater productivity of USAID funds. In the case of CFSC, it is not too late to introduce project changes.

6. Best project results are achieved by precisely targeting project objectives, limiting these if necessary to insure their coherence and consistency with those of the implementing agency. To achieve overall program balance, a portfolio of projects can be designed, each focused on different developmental goals.

A program may include a spectrum of strategies ranging from "growth oriented" at one end to "equity oriented" at the other; projects are of necessity more limited in scope, and no single one of them is likely to be capable of meeting the demands of the complete spectrum.

A growth oriented strategy places emphasis on "success" in terms of business growth, employment, export earnings, and early achievement of self-sustainability; an equity oriented strategy emphasizes improvement in the distribution of opportunities and productive resources, seeking out those who need assistance. The growth strategy runs the risk of disappointing those who believe they are deserving of assistance and of wasting resources on those who may not need assistance; the equity strategy runs the risk of poor performance in terms of bottom line indicators, and of developing a psychology of dependence upon continuing artificial support. It appears, however, that it does not work well for a single project to attempt to pursue both strategies with equal vigor.

The evaluation evidence suggests that a well designed project, with an established strategy fully utilizing the strengths of the implementing agency can achieve notable successes. Good examples are CFSC, CPDF and the EIP II factory shell program. Because USAID is providing subsidized funding, it is only reasonable to expect an implementing agency to be somewhat versatile and tolerant of the ambiguities inherent in requests to contribute to the two sometimes inconsistent goals. Limits to this tolerance must be carefully observed, and implementing agencies should not be asked to make fundamental changes in their own goals, methods and predispositions for AID convenience. Projects requiring the implementing agency to act out of character are more likely to lead to mutual frustration than accomplishment.

7. Both project design and evaluation would benefit from better impact indicators and measures of achievement.

These indicators would also contribute to more accurate comparison of project effectiveness and improved future allocation of resources. Projects were sometimes justified upon expected impacts that were unrealistic or improbable, and often not subject to measurement. In some instances the theoretical bases for assumptions were weak or not well reasoned, and not given the design attention merited by the considerable sums involved. Exaggerated forecasts of employment, income, and foreign exchange impacts in several cluster projects are examples of this deficiency.

B. RECOMMENDATIONS

1. Design credit programs so that funding is in the appropriate currency, separating balance of payment from project development objectives. Include mobilization of domestic resources as a primary objective, not only to maximize leverage of USAID funds but to encourage self reliance. If foreign exchange risk must be incurred, insure that it is borne at the level where it can best and most appropriately be met, often the national government or central bank.

2. Achieve diverse program goals through portfolio mix rather than complicate project implementation with multiple objectives.

3. Involve implementing agencies in project design to the maximum extent possible to insure effectiveness and commitment. On the other hand, don't expect them to be the primary agents for changes with which they are not in agreement or which they are not well equipped to implement (either by resources or temperament), although it is reasonable to expect an implementing agency to be somewhat versatile and tolerant of the ambiguities inherent in requests to contribute to USAID goals.

C. LESSONS LEARNED

1. The design of private sector projects involving the disbursement of USAID loan funds should be based on market surveys/feasibility studies which are up to private sector standards for investment decision-making.

Before undertaking a major investment commitment, any private sector, for-profit institution will undertake a market survey or feasibility study which will rigorously test the initial assumptions of any potential project. Potential customers are queried extensively as to their needs, preferences, budgets, and alternative sources of supply. Potential suppliers are assessed on quantity and quality of supplies, consistency, timing of deliveries, and costs. Such studies are not a casual undertaking, and warning signals uncovered in the process are taken very seriously.

The two most heavily private sector-oriented projects considered by this evaluation were CFSC and IPIP, both of which involved not only a private sector clientele, but private sector implementing agencies as well. In the case of CFSC, a thorough market survey was undertaken during the design process. The study determined, among other things, that there was a potential demand on the part of commercial banks in some countries for discounting facilities, as long as there was a shortage of liquidity in the system and assuming the banks would not be required to bear the foreign exchange risk. In spite of the qualifications and warnings, the CFSC project as presented in the project paper and stipulated in the loan agreement, was expected to disburse the largest part of its portfolio in the form of commercial bank discounts, with the commercial banks bearing the foreign exchange risk. As a result, there has been no demand whatsoever for the discount service, and funds earmarked for this purpose have gone unutilized.

The IPIP project was designed to provide loan financing for privately owned and operated industrial estates. The demand for such funds was inferred on the basis of the experience of existing projects, including PDAP, which reported that foreign investors turned down investment opportunities in the region due to a lack of factory space. Aside from these observations, there was little in the nature of a market survey on which to base the IPIP design. Over $10 million in project funds were obligated which were never disbursed.

USAID only "authorizes" and "obligates" funds for new projects, and has more rigorous screening requirements built into its system before disbursements can take place (e.g., through the risk born by the private sector implementing agencies). In this sense, USAID is not actually investing resources prematurely or injudiciously. However, funds authorized or obligated for one project cannot be disbursed by another, and it generally takes two to four years before unutilizeable project funds can be de-obligated or re-obligated to other projects. In this sense, there is a clear development opportunity cost to the obligated funds, and a compelling reason for USAID to base its obligations on more rigorous analyses taken more seriously than has been the case in the past.

2. Private sector institutions have been able to play a positive role in some development efforts but have proven ineffective or inappropriate agents in other cases.

For medium sized business ventures (loans in the range of $50,000 to $400,000), CFSC has proven an effective and worthwhile addition to the financial community. It has been described as responsive and flexible, and it appears that financial obligations to CFSC are treated more commercially than those to many of the DFCs, which often experience difficulty in loan collection. DFC personnel say their institutions are hampered by their government status which results in a widespread presumption of leniency.

On the other hand, however, IPIP - which was intended to channel funds through private commercial banks for private investors in industrial estates and (speculative) factory shell investments in the Caribbean (as in the United States) are undertaken by governments in their efforts to attract investment to their regions. Publicly sponsored programs usually offer space at subsidized rates, and public sponsors are the beneficiaries of increased taxes and other direct and indirect income stimulated by the investment in the area. Obviously, private projects do not derive similar income and must depend solely upon rental rates. Usually these cannot profitably compete with subsidized government rates. It is inappropriate to design a project requiring the private sector to compete on unequal terms with the public sector, unless of course it can be conclusively demonstrated that the public sector is unwilling or unable to satisfy potential demand.

APPENDIX A

A.1. FINANCIAL PROJECTS' EVALUATION SCOPE OF WORK

This evaluation will examine four of RDO/C's private sector oriented projects, which provide or facilitate the provision of credit for productive enterprises or infrastructure for productive enterprise in the Caribbean. The four projects are as follows:

1. The Caribbean Project Development Facility, or CPDF, which assists entrepreneurs in developing proposals for financing (primarily a UNDP project which receives some USAID financing along with other donors, and is implemented with IFC personnel).

2. Employment Investment Promotion II, or EIP II, which provides financing through the Caribbean Development Bank for factory shells primarily in publicly owned industrial estates, and which also provides lines of credit to several national Development Finance Corporations for on-lending as industrial credits.

3. Infrastructure for Productive Investment, or IPIP, which provided financing through the Eastern Caribbean Central Bank and local commercial banks for the development of industrial estates.

4. The Caribbean Financial Services Corporation, or CFSC, which provides term financing for productive enterprise.

A. PURPOSES OF EVALUATION

1. To determine the success of the four projects in achieving their stated objectives, which are primarily focussed on creating institutions to serve the needs of private sector productive enterprises for project design/financial proposals, term finance and/or infrastructure.

2. To assess the contributions of the four projects to economic development in the region (based on the evaluation evidence as described below) and to assess the appropriateness of project designs for contributing to economic development.

3. To identify lessons learned and make limited recommendations, arising directly out of the evaluation evidence, concerning future USAID assistance to the private sector in the Caribbean

B. <u>FOCUS OF THE EVALUATION</u>

The Evaluation of the four projects will focus on four questions, utilizing readily available data:

1. What were the outputs and costs of each of the four projects? (How many loans, of what size, and for what purpose? How many project design/financial proposals?)

2. What was the development impact of the projects as measured by a purposive but varied sample of firms assisted? (e.g., How much employment was created by the firms? What has been the level of their exports? What has been the growth of their sales?)

3. To what extent did the projects contribute to the impact measured at the firm level?

4. Were the projects successful in meeting their objectives? Why or why not?

C. <u>PRINCIPAL EVALUATION TASKS</u>

1. **Summarize the project design of each of the four projects:**

   A. Summarize the project goals, purposes, the main points of the project agreement between the implementing agency and USAID, the type of institution/ organization which was to be created, its scope of activities, authority, principal modes of operation and organizational linkages;

   B. Summarize the planned action program of each project in terms of anticipated inputs and outputs. Determine any alterations made by the implementing agency to originally anticipated project action plans.

   C. Briefly summarize the context in which the projects were designed in terms of the macro-economic environment of the region, the political environment, government economic, fiscal, and regulatory policies, and the state of international markets affecting key export sectors of the region (based on documentation readily available in USAID, CDB, and the Eastern Caribbean Central Bank).

2. **Quantify costs and direct outputs of each project utilizing readily available information. Analyze any disparity between forecast outputs and actual outputs to date for each project and assess reasons for any significant disparity.**

A. In the case of CPDF, summarize the numbers of potential business projects considered each year, the numbers of project proposals prepared and submitted for financing, and the numbers of projects funded. Describe and quantify other services provided by CPDF to businesspeople in the region. Discuss costs of CPDF assistance per project proposal and per project funded. Identify any requests from firms owned or controlled by women.

B. In the case of EIP II: 1) Summarize loans made for factory shells, the numbers of factory shells, floor space, and available information on key building characteristics and amenities. 2) Summarize the lines of credit extended to the DFCs for industrial credit programs. 3) Summarize repayment record of borrowers and itemize arrears details.

C. In the case of IPIP, summarize the numbers of loans approved for industrial estates, factory shells, or other industrial infrastructure; list planned and installed floor space and available information on key building characteristics and amenities. Itemize ultimate disposition of project funds to date and their uses. Comment on apparent reasons for the major shortfall in project activity. Identify any loans to women entrepreneurs.

D. In the case of CFSC, summarize the numbers of loan applications, the numbers of projects financed, the type of financing (loan, equity, loan discounts or guarantees, etc), what the financing was used for, the value of the financing and the terms of the financing, and the repayment record. Itemize ultimate disposition of project funds to date and their uses. Identify any loans to women entrepreneurs.

3. Visit those DFCs which disbursed EIP II industrial credits but were not evaluated previously (Grenada and Montserrat). Obtain information on numbers of loans made, their average size, the standard terms of the loan, the usual purposes, and the repayment record. Comment upon whether the industrial credit programs appear to be self-sustaining; if not, comment on probable reasons for any shortfall (e.g., loan volume too low, arrears too high, etc.) Identify any loans made to companies owned or controlled by women.

4. Assess the development impact of each of the four projects at the firm level (to the extent that it is relevant, given the amount of time projects have been in operation), for a sample of: 1) firms which have requested CPDF design assistance, 2) firms which have requested CFSC loans, 3) firms which have requested IPIP loans or rent space in IPIP-financed industrial states, 4) firms which rent space

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in EIP II financed factory shells, and 5) firms which requested EIP II industrial credits through the DFCs. Interview to obtain answers to the following questions:

A. What have been the firm's annual employment, exports and sales before and after receiving (requesting) assistance?

B. How satisfied has the entrepreneur been with the service or assistance provided by the project, (e.g., financing, factory space, financial proposal development assistance) if any? If denied assistance, what is the entrepreneur's perception of the reasons for refusal?

C. If assistance/service was received, what role did it play in the success of the firm to date? What were the alternatives (e.g., alternative sources of financing, of factory space, or of financial proposal development assistance)?

5. From a purposively selected but varied subset of firms involved in the impact interviews described above, obtain more details pertinent to the business performance to date. To the extent information is available, comment on the sustainability of business success, or reasons for lack of success; examine linkages between project assistance and business performance; compare financial proposals (relevant to CPDF, CFSC, EIP II industrial credits and IPIP applicants) with business activities to date and comment on any differences.

6. In connection with Task 5, above and to the extent feasible, contact intermediate credit institutions (financing institutions associated with CPDF-assisted proposals for financing, commercial banks associated with requests for IPIP financing, DFC's disbursing EIP II industrial credits) to discuss the performance of the borrowing firms, the terms of the project funds (including merits and drawbacks vis-a-vis alternative sources of funds), and the performance of the project implementing agency.

7. Visit a sample of managers of industrial estates which received EIP II financing for factory shells and obtain any available information on occupancy rates and rental rates. Comment on any evidence of manifest subsidization (e.g., rental rates fail to cover amortized construction cost of factory shells).

8. On the basis of the evaluation evidence accumulated above, comment on the operations and performance of the implementing institutions.

9. On the basis of the evaluation evidence, discuss relative merits of "near commercial orientation" (concentration on those firms which almost qualify for access to commercial credits; provision of space/services on near commercial terms) versus a "development orientation" (concentration on those firms which need subsidized credit or services; provision of space/services on subsidized basis).

10. Present the perceived constraints to business growth and industrial development (other than those addressed by the projects) that may be hampering the success of the projects. Point out areas of consensus and those of dispute.

11. Apply the Generic Scope of Work to each project, specifying relevant purpose elements, defining causal linkages to the stated goals, and reviewing the evaluation evidence on project outputs and achievement of objectives.

12. Make limited recommendations arising directly out of evaluation evidence concerning modifications to implementation of the on-going projects (CFSC) and future projects aimed at assisting the productive private sector in the region. Present lessons learned for the private sector program in general.

D. METHODOLOGY

LBII will present this Scope of Work, a report outline and evaluation schedule to RDO/C for clearance on or about June 26, 1987, covering the period through September 4, which is the completion date of the evaluation and the date upon which the draft final report will be submitted.

The work plan/schedule will include the following:

1. A review of the project paper and project agreement for each of the projects; the previous evaluations of EIP II (by Arthur D. Little, which first examine the factory shell program and later examined four DFCs) and CPDF, and other pertinent reports.

2. Meetings with the RDO/C project officers of the four projects, to discuss the course of the evaluations and to determine what documentation is available on file at RDO/C. The respective RDO/C project officers should arrange for meetings with directors of project implementing agencies.

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3. Meetings with directors of CFSC, IPIP, and EIP II at the end of the first week of the evaluation, with RDC/C project officers in attendance. The purpose of these meetings will be to discuss the course of the evaluation, requirements for information, and to obtain the names and addresses of contacts at the sub-project level. The evaluation team should request that the project managers contact the subproject principals to advise them of the upcoming evaluation and the general information requirements of the evaluation. Subsequent visits may be made to implementing agencies to review documentation available there. A visit will be made by one or two members of the evaluation team to CPDF headquarters in Washington DC to review project documentation there.

4. For each project, summary data on all subprojects which are available at the project implementing agencies should be reviewed. Solicitation of factual data from each project implementing agency will include the following:

a. screening information forms, including preliminary assessments of business performance and project impact which were submitted at application time for each subproject considered for assistance.

b. itemization of the disbursements of project funds to end users, dates and extent of obligations.

c. loan performance for each subloan, including summary of arrears and any follow-up activities on delinquent accounts.

d. progress reports containing data on business performance of firms which received assistance.

5. Visits to DFCs in Grenada and Montserrat and a purposive but varied sample (by project and by geographic location) of 25-30 firms assisted by the projects in Barbados and the OECS during early July for preliminary interviews to obtain evidence of project impact.

6. During or after preliminary interviews, the evaluation team members will choose 10-12 firms for more detailed discussions of business success and project linkages. Contacts will also be made with intermediate credit institutions associated with appropriate CPDF and IPIP subprojects.

7. After field work has been completed, the evaluation team will share notes and data, and begin analysis and writing. Each member of the evaluation team will be assigned discrete chapters/sections of the report to write, divided primarily on the basis of project.

8. A preliminary draft of initial findings will be presented to the RDO/C project officers for the four projects, the Chief of the Private Sector Program, and the RDO/C Evaluation Officer on or about August 7 for discussion. A preliminary draft of the final report will be submitted to the same officers on our about August 28 for discussion.

9. The draft final report will be submitted September 4. RDO/C will be responsible for circulating the draft final report and for soliciting feedback from project implementing agencies. Written comments from the implementing agencies will be incorporated into the Final Report.

E. EVALUATION REPORT FORMAT

The evaluation report will contain:

1. An executive summary covering the purpose of the evaluation, the methodology used, findings, conclusions, and recommendations. It will also include comments on development impact and lessons learned. It will be complete enough so that the reader can understand the evaluation without having to read the entire document; that is, the summary will stand on its own as a self-contained document.

2. A copy of this Scope of Work. Any deviation from the Scope will be explained.

3. A listing of the evaluation team, including country personnel, each person's field of expertise and the role which each played on the team.

4. A clear presentation of any evaluation recommendations, in a separate section of the report, so that the reader can easily locate them.

5. A discussion of previous evaluations reviewed with a brief synopsis of the conclusions and recommendations made in earlier reports. The ADL evaluation of portions of EIP II will form an important part of the current EIP II evaluation. The team will briefly discuss what use was made of other previous evaluations in their review of the project.

6. Separate sections on the development impact of each of the projects. These section will clearly present the development benefits resulting from the projects.

7. The evaluation lessons learned will be clearly presented. These will describe the causal relationship factors that proved critical to project success or failure, including necessary political, social and bureaucratic preconditions within the host countries and USAID. There will also be a discussion of the techniques or approaches which proved most effective or had to be changed and why. Lessons relating to replicability and sustainability will be discussed.

8. Written comments on the draft final report prepared by the implementing agencies.

A.2. OUTLINE OF "GENERIC SCOPE OF WORK"

A. PROGRAM GOALS

1. Economic Development Goal:

To increase the contributions of privately owned business establishments and the institutions which serve them to employment, production, productivity,net foreign exchange earnings, and/or improved standards of living in specific Caribbean countries. (CPDF, IPIP, EIP II, CFSC)

2. Policy Goal:

To improve the climate for private investment and expanded international trade in these countries.

3. Institutional Goal:

To increase the capacities, efficiency, and sustainability of institutions serving the private sector in these countries. (CFSC, EIP II)

B. PROJECT PURPOSE ELEMENTS

(Intended results which contribute to the program goal)

1. To attract foreign investment (IPIP, CPDF)
2. To encourage local investment (all)
3. To develop land for industrial and commercial uses (IPIP, EIP II)
4. To provide factory buildings (IPIP, EIP II)
5. To provide long term financing for businesses (CFSC, EIP II)
6. To provide short term financing for businesses (EIP II)
7. To provide financing for housing
8. To provide financing for consumer durables
9. To provide other consumer credit
10. To create financial institutions to serve unmet needs (CFSC, EIP II, IPIP)
11. To improve business management skills (CPDF)
12. To improve management systems
13. To improve record keeping and accounting skills
14. To improve skills of supervisors
15. To improve labor relations skills
16. To improve marketing skills
17. To improve skills of laborers and office workers
18. To develop investment promotion skills (CPDF)

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19. To develop investment promotion institutions (CPDF)
20. To improve production methods
21. To introduce new technology
22. To identify and tap new markets (CPDF)
23. To improve service or reduce costs of public infrastructure utilized by productive activities (IPIP, EIP II)
24. To encourage risk-taking and entrepreneurship (CPDF, CFSC, EIP II)
25. To encourage reliance on competition and market mechanisms of resource allocation
26. To divest state-owned enterprises
27. To replace government force account activities with government contracting
28. To establish ground rules under which enterprises and cooperatives can compete with government parastatals and force account activities on the basis of efficiency
29. To adopt tax structures which encourage private initiative
30. To reduce the burdens of import and export controls and other forms of regulation of the business community
31. To improve labor-management relations
32. To reduce distortions of market forces in international trade
33. To develop infant industries
34. To foster regional economic integration (increase market size and access)
35. To integrate the efforts of members of the business community to improve conditions of doing business
36. To create and attract membership to business associations
37. To broaden the constituency of business associations
38. To encourage dialogue between government and business on matters of mutual interest
38. To promote the purposes and programs of the business organizations among the public at large
39. To convey to policy makers an understanding of the decision-criteria of foreign investors
40. To create or change government policies
41. To create or change legislation
42. To create or change government procedures and practices
43. To reduce imports (EIP II, CPDF)
44. To promote exports (IPIP, EIP II, CPDF, CFSC)

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C. PROJECT OUTPUTS

(Outputs to be related to individual purposes)

1. Technical Assistance Tasks Completed (characterize and quantify tasks) (CPDF, EIP II)
2. Promotional materials distributed
3. Trade shows attended
4. Prospects followed up (CPDF)
5. Visits made
6. Financing Drawn Down by End Users (CFSC, IPIP, EIP II)
7. Persons Trained
8. Manuals Prepared
9. Institutions in Place and Providing Outputs (all) (characterize and quantify outputs)
10. License agreements made
11. Public Infrastructure Projects Services Provided (IPIP, EIP II)
12. New ventures undertaken (CFSC, IPIP, EIP II)
13. Representations made to government officials and legislators
14. Divestiture plans prepared
15. Contracting procedures written
16. Policy studies completed
16. Labor-management conferences held
17. Relationships with decision-makers established
18. Memberships on policy-making bodies and advisory committees held
19. Recommendations on legislation, regulations, and procedures made
20. Media message circulation achieved

D. PROJECT INPUTS

(AID inputs, Other Donor inputs, and inputs provided by recipient institutions and individuals to be shown separately)

1. Funding
2. In-kind contributions
3. Policies
4. Planning
5. Project Management
6. Recruitment
7. Client interaction
8. Consultant support

E. CHANGES IN OTHER FACTORS

1. Macro-economic conditions in host countries and in countries which constitute their principal export markets and/or sources of supply.

2. Social, political and economic conditions as perceived by the target group.

3. Scale of problems addressed in comparison with scale of resources devoted to problem solution.

4. Market conditions and technological trends in specific key industries and industry segments such as clothing and electronics prevailing worldwide or in particular export markets.

5. Government-policies external to those which are the subject of the program.

APPENDIX B

CFSC

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B.1 CFSC FINANCIAL STATEMENT

	1984/5	1985/6	1986/7	6/30/87
ASSETS				
Cash and deposits	1120	1117	1018	1629
Other assets	38	91	206	241
Net loans	1733	3713	5926	6102
Fixed assets	20	15	35	46
Deferred expenses	20	15	0	14
Risk minimization	0	35	96	97
TOTAL	2985	5030	7281	8129
LIABILITIES				
Accounts payable etc	4	7	14	64
USAID Loan	625	2290	4045	4795
Other deposits	0	0	0	0
TOTAL	629	2297	4059	4859
SHAREHOLDERS EQUITY				
Capital	2350	2650	3012	3012
Statutory reserve	1	13	32	32
Retained earnings	5	70	154	226
TOTAL	2356	2733	3222	3270
LIABILITIES/ EQUITY	2985	5030	7281	8129
PROFIT AND LOSS				
Interest income	210	377	525	160
on loans	153	293	499	149
on deposits	57	84	26	11
Interest expense		35	59	20
Net Interest Income	210	342	466	140
OPERATING EXPENSES				
Salaries	85	102	109	26
Office	43	38	43	15
Travel & Promotion	25	22	29	9
Professional fees	16	11	13	4
Depreciation	14	17	17	4
Amort of def exp	10	21	15	
Directors' Fees	0	0	14	4
TOTAL	193	211	240	62
Net Income ex pll	17	131	227	77
Provision loan loss	11	55	99	31
Net Income	6	76	127	47
Transfer to reserves	1	11	19	
		65	108	
Beg retaind earnings	0	5	70	
End retaind earnings	5	70	178	

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B.2 CFSC DIRECTORS

LIST OF CFSC'S DIRECTORS

Mr. John S. Goddard,
Chairman & Chief Executive Officer,
Goddard Enterprises Ltd.,
P.O. BOX 502,
Bridgetown,
Barbados.

Mr. David DaCosta,
Managing Director,
Caribbean Financial Services Corporation,
Chapel Street,
Bridgetown,
Barbados.

Mr. Hugh Henry May,
International Finance Corporation,
Development Department,
1818 H. Street, N.W.
Washington D.C. 20433, U.S.A.

Mr. William A. Kelsick,
Managing Director,
S. L. Horsford & Co. Ltd.,
P.O. BOX 45, Marshall House,
Basseterre,
St. Kitts.

Mr. W. Sidney Knox,
Chairman & Chief Executive,
Neal & Massy Holdings Ltd.,
P.O. Box 544
63 Park Street,
Port-of-Spain, Trinidad.

Mr. Karl-Heinz Kolz,
DEG - German Finance Company,
Postfach 450340,
D-5000 Koln 41,
W. GERMANY.

Mr. Philip Nassief,
Managing Director,
Dominica Coconut Products,
P.O. BOX 18,
Roseau,
Dominica.

Mr. P. A. Thompson,
Executive Director,
Caribbean Association of Industry & Commerce,
P.O. BOX 259
Wildey Plaza,
St. Michael.

Mr. William Douglas Rapier,
Peat Marwick, Mitchell & Co.,
Manoel Street,
P.O. Box 195,
Castries,
St. Lucia.

Mr. John Taylor,
Commonwealth Development Corporation,
P.O. Box 619,
Castries,
St. Lucia.

B.3 CFSC SHAREHOLDERS

List of Shareholders 9th April, 1987

Names	No. of Shares
Barbados Shipping & Trading Co. Ltd.	500
Cave Shepherd & Co. Ltd.	125
Plantations Ltd.	125
A. S. Brydens'& Sons Ltd.	125
Life of Barbados Ltd.	125
Neal & Massy Holdings Ltd.	1,250
T. Geddes Grant (B`dos) Ltd.	250
T. Geddes Grant (Jamaica) Ltd.	500
T. Geddes Grant (St. Vincent) Ltd.	250
Angostura Bitters Ltd.	500
S. L. Horsford & Co. Ltd.	250
Grace Kennedy Ltd.	1,250
Dominica Coconut Products Ltd.	125
David DaCosta	250
Goddard Enterprises Ltd.	502
Gleaner Co. Ltd.	215
Jamaica National Building Society	158
Barclays Bank International	1,000
Bank of Commerce Trinidad & Tobago Ltd.	1,000
Bank of Commerce Jamaica Ltd.	500
CIBC Toronto, Canada	500
RBC Trinidad & Tobago	600
RBC Toronto, Canada,	1,800
McEnearney Alstons	500
Chase Manhattan Overseas Banking Corp.	1,500
Bank of Nova Scotia	3,000
Citibank, N.A.	2,500
The Mutual Security Bank Ltd.	600
International Finance Corporation	3,000
British-American Tobacco Co. (B`dos) Ltd.	250
T. Geddes Grant (Guyana) Ltd.	250
DEG -- German Finance Company	3,000
Nevis Marine Company Ltd.	125
Commonwealth Development Corporation	3,500
	30,125

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B.4 CFSC LOAN LISTING & SOURCE & ORIGIN STATEMENT

1.3 LOAN PORTFOLIO - As at 30th June, 1987

Customer	Purpose (Finance)	Loan Amount US$	Loan Terms	Amount Disbursed/Outstanding	Date Disbursed Job Impact (#) FX Impact (US$)
Gulfstream Industries Barbados Assembly of Household Appliances	Working capital	300,000	Interest 11% 2 years	300,000/300,000	August 1984 JI - 0/45 FX - 330,000
SRC (West Indies) Ltd. Barbados Manufacture of pre-fabricated steel buildings	Plant expansion	325,000	Interest 11% Amortization 10 years	325,000/Repaid	November 1984 JI - 22/54 FX - 600,000
Copra Manufacturers Ltd. St. Lucia Copra & Edible oil manufacturing	Plant expansion	350,000	Interest 11% Amortization 10 years	350,000/350,000	January 1985 JI - 0/120 FX - 1.7 million
West India Biscuit Co. Barbados Biscuit Manufacturer	Plant expansion	200,000	Interest 11% Amortization 7 years	200,000/Repaid	March 1985 JI - 6/70 FX - 400,000
Andrew E. Holm Ltd. Antigua Resort Hotel	Expansion, refurbishing and purchase of desalinization plant	350,000	Interest 11% Amortization 10 years	350,000/350,000	January 1985 JI - 15/120 FX - 2.5 million
HMB Holdings Ltd. Antigua Resort Hotel	Desalinization plant	120,000	Interest 11% Amortization 7 years	120,000/66,000	January 1985 JI - 0/110 FX - 3 million
Hi-line Industries Ltd. Barbados Handbag manufacturer	Equipment	25,000	Interest 11% 6 years	25,000/21,966	February, 1985 JI - 12/22 FX - 50,000
Banks DIH Ltd. Guyana Rum manufacturer	Equipment	300,000	Interest 11% 7 years	300,000/270,000	March 1985 JI - 10/140 FX - 350,000
Peter/Osmond Kelsick Antigua Watersports	Equipment	50,000	Interest 11% 7 years	50,000/44,098	March 1985 JI - 4/4 FX - 60,000
Fish of Barbados Ltd. Barbados Fishing services and processing	Equipment	110,000	Interest 11% 7 years	110,000/110,000	April 1985 JI - 6/6 FX - Nil

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II B LOAN PORTFOLIO - As at 30th June, 1987 (Cont'd)

Customer	Purpose (Finance)	Loan Amount	Loan Terms	Amount Disbursed/Outstanding	Date Disbursed Job Impact (#) FX Impact (US$)
[illegible] Milling Co. Ltd. Barbados Rice Milling	Equipment	185,000	Interest 11% 7 years	185,000/132,936	July 1985 JI - 8/40 FX - 200,000
Cage Enterprises Ltd. Antigua Construction and Industrial real estate	Construction of factory	350,000	Interest 11% 13 years	350,000/350,000	September 1985 JI - 25/150 FX - Nil
Electrofab (St. Kitts) Ltd. St. Kitts Electronics assembly	Factory shell	400,000	Interst 11% 15 years	400,000/400,000	August 1985 JI - 60/150 FX - 850,000
Industrial & Electrical Appliances Ltd. Guyana Appliance manufacturer	Retooling	75,000	Interest 11% 3-year revolving credit.	75,000/72,066	September 1985 JI - 0/150 FX - 400,000
B & D Heavy Equipment Ltd. St. Lucia Construction	Equipment	35,000	Interest 11% 4 years	35,000/25,889	September 1985 JI - 5/40 FX - Nil
	Service facility	130,000	Interest 11% 10 years FX - 0	130,000/130,000	--- JI - 6/6 FX - Nil
Broilerson (St. Kitts) Ltd. St. Kitts Poultry farm/processing	Plant and equipment	165,000	Interest 11% 6 years	165,000/145,000	May 1986 JI - 25 FX - 400,000
West Indies Resorts Management Ltd. Antigua Hotel	Renovations and refurbishing	350,000	Interest 11% 10 years	350,000/350,000	November 1985 JI - 45/45 FX - 1.2 million
Spice Island Marine Services Grenada	Renovation/expansion of marina	350,000	Interest 11% - 11 years	350,000/350,000	December 1985 JI - 7/35 FX - 350,000
Belize Marine Enterprises Ltd. Belize Marine Services	Expansion of marina	400,000	Interest 11% 13 years	393,670/393,670	February 1986 JI - 15/30 FX - 350,000

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. 8 LOAN PORTFOLIO - As at 30th June, 1987 (Cont'd)

stomer	Purpose (Finance)	Loan Amount	Loan Terms	Amount Disbursed/Outstanding	Date Disbursed Job Impact (=) Fx Impact (US$)
[illegible]rock Ltd. . Lucia arrying	Equipment	150,000	Interest 11% [illegible] years	150,000/150,000	[illegible] [illegible] - [illegible] FX - [illegible]
ricom Marketing . Lucia ible oil packaging	Pet bottle making equipment	375,000	Interest 11% 7 years	375,000/365,771	Apr[illegible] JI - 5/22 FX - 225,[illegible]
R Equipment Services [illegible]gua avy Equipment Servicing	Heavy equipment servicing	130,000	Interest 11% 12 years	130,000/130,000	June 1985 JI - 4/8 FX - NIL
sephine Gabriel & Co. [illegible]inica ft Drink Manufacturer	Factory shell	140,000	Interest 11% 12 years	140,000/140,000	August 1986 JI - 0/40 FX - 0
tel Investments Ltd. . Lucia tel	Expansion - 40 rooms	400,000	Interest 11% 12 years	400,000/400,000	July 1985 JI - [illegible] FX 1 million
C Ltd. enada tel	New facility	400,000	Interest 11% 10 years	300,000/300,000	September, 1985 JI - 43/43 FX - 400,000
umeria Investments Ltd. . Vincent tel	Expansion	150,000	Interest 10.5% 15 years	100,000/101,878	December, 1986 JI - 5/22 FX - 45,000
abubani Snack Foods enada ack Food Manufacturer	New facility	325,000	Interest 10.5% 10 years	325,000/323,000	March, 1987 JI - 25/25 FX - 235,000
yboarding Systems Ltd. rbados ta Entry	Expansion	60,000	Interest 10.5%	57,500/57,500	November, 1986 JI - 30/55 FX - 300,000

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II 5 LOAN PORTFOLIO - As at 30th June, 1987 (Cont'd)

Customer	Purpose (Finance)	Loan Amount	Loan Terms	Amount Disbursed/Outstanding	Date Disbursed Job Impact (#) Fx Impact (US$)
Arctic Company Ltd. Grenada Hotel	Plant start up	400,000	Interest 10.5% 12 years	200,000/200,000	February, 1987 JI - 37/37 FX - 220,000
Century Pipes Barbados Manufacturing	Plant expansion	150,000	Interest 10.5%	0/0	--- JI - 2/19 FX - 200,000
Eric's Biscuits Ltd. Dominica Manufacturing	New Plant	250,000	Interest 10.5%	0/0	--- JI - 28/28 FX - 147,000

LOAN STATISTICS

SUMMARY ($'000) as at 30th June, 1987

	VALUE	#	CUMULATIVE	VALUE	#
Outstandings	6,232	28	Loan Approvals	6,695	36
Undrawn commitments	556	2	Loan Disbursements	6,924	31
	-----	--			
Total outstandings & Commitments	6,788	30			
	=====	==			

Job & FX Impact

	Current Qtr	Current Year	Cumulative
Job impact	---	---	428/1770
FX impact	---	---	US$15.0 million

NOTES

JI - JOB IMPACT: Recognized on first disbursement. The first number indicates direct long term jobs created as a result of CFSC's loan; the second number relates to the total project. This number does not include short term construction or related jobs created during the implementation stage. Where the project is a start up, the total number of jobs created are assigned to CFSC.

FX - FOREIGN EXCHANGE IMPACT: Recognized on first disbursement. An estimate of the gross foreign exchange generated through exports and/or saved through import substitution in the first full year subsequent to CFSC's loan disbursement.

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SOURCE AND ORIGIN SUMMARY OF USAID LOAN DISBURSEMENTS AS OF 30TH JUNE, 1987

Date of Disbursement	Gross Disbursement	Sub Loan(s) Names	Amount US$	Source and Origin U.S.A.	Local	941	899-941
03/13/1985	625,000	B.R.C. West Indies Ltd.	325,000		325,000		
		Gulfstream Industries	300,000		300,000		
04/22/1985	1,020,000	Copra Manufacturers	350,000				350,000
		Andrew E. Holm Ltd.	350,000	248,700	101,300		
		H.M.B. Holdings Ltd.	120,000	120,000			
		West India Biscuit Co.	200,000	100,005	59,318		40,677
11/14/1985	110,000	Fish of Barbados Ltd.	110,000				110,000
11/14/1985	185,000	Hill Milling Co. Ltd.	185,000			185,000	
04/10/1986	350,000	West Indies Resorts Mgt	350,000	116,795	233,205		
06/12/1986	350,000	Electrofab (St. Kitts) Ltd.	350,000	43,995	306,005		
09/23/1986	375,000	Caricom Marketing Ltd.	375,000				375,000
02/08/1986	350,000	Spice Island Marina	350,000	87,249	262,751		
02/18/87	150,000	Northrock Ltd.	150,000		26,093		123,907
02/18/87	400,000	Hotel Investments Ltd.	400,000	178,596	221,404		
02/26/87	130,000	CPR Equipment Services	130,000	30,883	95,441		3,676
06/26/87	350,000	Cage Enterprises	350,000	221,161	128,839		
06/26/87	400,000	Anric Co. Ltd.	400,000	88,163	311,837		
TOTALS	4,795,000	17 transactions	4,795,000	1,235,547	2,371,193	185,000	1,003,260

Codes 899 - Free World (excluding participating country)
941 - Selected free world (excluding participating country)

(Aid/quarterly)

B.5 CFSC 1987/8 BUDGET

CARIBBEAN FINANCIAL SERVICES CORPORATION

1987/88 BUDGET

I SUMMARY OF BUDGET DATA AND 1986/87, 1985/86 RESULTS

	1985/86	1986/87		1987/88
	ACTUAL	ACTUAL	BUDGET	BUDGET
Loan Portfolio	3785	6091	7500	9300
Total assets	5096	7449	9407	11413
USAID loan	2290	4045	6000	7500
Net interest income	341	465	616	672
Total operating expenses	211	240	266	265
Loan loss provision	55	99	112	151
Net income	77	127	242	257
Net Interest Margin	6.69%	6.24%	6.55%	5.89%
Return on equity	1.51%	3.95%	7.76%	7.39%
Return on assets	2.82%	1.71%	2.57%	2.25%
Earnings per share	$2.89	$4.22	$9.13	$8.53
Debt leverage	0.8X	1.3X	2.0X	2.3X
LLP:Loans	1.74%	2.71%	2.34%	3.48%
Number of staff	4	4	5	5

II REVIEW OF 1986/87 OBJECTIVES AND ACCOMPLISHMENTS

During the 1986/87 financial year, the Company's third year, eight loans with a value of US$2,735 thousand were approved. Loan disbursements amounted to US$2,930 thousand, with undisbursed commitments totalling US$1.3 million at year end. Total loan outstandings at year end were US$6.1 million against the budgeted US$7.5 million. Actual outstandings were affected by the prepayment of two loans with a combined value of US$400 thousand. When adjusted for these prepayments the portfolio was one quarter behind target.

Since the commencement of operations US$8.5 million (35 transactions) in loans have been approved under which disbursements have amounted to US$6.7 million (31 transactions). The direct annual foreign exchange earnings generated from these businesses is estimated at US$4.6 million with 402 new jobs being created - these figures being relevant to loan disbursements only. The figures relating to 1986/87 activities are; job creation 135; foreign exchange earnings US$2.6 million. In addition substantial construction and other employment has been generated during the implementation stages of the projects being financed.

Budgeted financial targets were not attained for the 1986/87 year. Full year earnings at US$127 thousand were 52.5% of the budgeted US$242 thousand. Net income was however 65% up over the prior year (US$77 thousand). The non achievement of the 1986/87 budget profits reflected volume considerations, total assets and loans being 20.8% and 18.8% below budget respectively. Also, there was the impact of non accrual loans which had not been allowed for in the 1986/87 budget and which depressed earnings by US$37 thousand. A full review of the 1986/87 year is covered under memorandum of the 9th April, 1987.

During 1986 CFSC continued to expand its contacts among the financial communities (the various Chambers of Commerce, Industrial Development Corporations, Commercial banks and related institutions), the emphasis being on establishing name recognition. Where CFSC has decided to finance a project disbursements have been effected quickly and smoothly and we have got very positive feedback with respect to CFSC's disbursement process. However, given the nature of CFSC's business many proposals have been rejected as not feasible and some of these have been strongly promoted by "non-related" but "interested" parties. Dealing with these proposals has been a challenging aspect of CFSC's activities

III BUSINESS PLAN - 1986/87

Market Environment

General improvements in the tourism and agriculture sectors that were recorded in 1985/86 year continued into the 1986/87 budget period. The continued and accelerating decline of the United States dollar in world currency markets, to which the Eastern Caribbean and Barbados dollars are tied, has brought mixed responses to local economies. On one hand reduced costs of vacation packages originating in Europe has helped improve the fundamentals relating to the profitability of the hotel industry. Agriculture has also benefited. In both these sectors volumes (real output) has also gone up, i.e. in terms of tourist arrivals and agricultural exports. The continued decline of the U.S. dollar will result in good performances being reported in these sectors over the near term; the current budget year. On the other hand the depreciating value of the United States dollar will result in increased inflation, rises in imported component prices and related problems of eroded personal incomes and the political consequences arising therefrom. Diversification in the agriculture sector, a major thrust in all the territories has yielded limited results to date; but it is yet early in this programme. The manufacturing sector remained stagnant in 1986/87. The OECS' and Barbados' indigenous manufacturing activities have been underpinned by protected local and regional markets but demand in Trinidad and Tobago and Jamaica, key components of the regional market, remains soft. Several enclaved manufacturing operations have closed and the establishment of CBI manufacturing operations have not materialized at anything near the level anticipated. Only marginal improvements in the manufacturing sector are expected in the current budget year.

The construction industry has been strong, supported by demand from the housing market which has been bouyant and reflects increasing liquidity in the commercial banking system.

With Government finances under pressure and private businesses rationalizing operations as far as is possible, unemployment remains high, the full impact being difficult to assess.

While there exists substantial liquidity in the commercial banking sector, banks have been generally unable to identify projects to which they feel comfortable in committing funds. However, a strong demand for consumer credit has maintained the industry profitability.

With respect to the potential for CFSC's involvement in the various economic sectors, the following assessment is presented. Note that this assessment is not necessarily of the industry outlook, but is the stance that CFSC will take in involvement in the industry; for example, while we assess that the outlook for the hotel industry in Barbados is bright we do not foresee an industry need for finance for additional plant.

Country	Tourism	Manufacturing	Agro Industry
Antigua	M	Mv	Mv
Barbados	L^	M	M
Belize	L	L	H
Dominica	L	L^	M^
Grenada	M	Mv	M
St. Kitts	M	Mv	L^
St. Lucia	M^	M	M
St. Vincent	Mv	L^	M

In marketing CFSC's loans we will continue developing our close contacts with the business and financial communities, seeking those niche opportunities where we consider the undertakings feasible but which are not "bankable" under existing commercial bank criteria.

Critical Assumptions

While it is recognised that world trade and financial markets are unstable, these projections assume that any adverse international events will not impact the region in the current budget year.

The finances of regional Governments will remain tight but international aid flows and domestic borrowings will permit Government services and investment to be maintained at current levels for basic needs and services programmes. The declining United States dollar presently having a beneficial impact will result in rising rates of inflation, 5-12%, but this will not upset what have been relatively stable labour and political conditions.

There will be no shortage in available foreign exchange for the OECS and Barbados to meet Governmental and private sector financial commitments.

IV FINANCIAL REVIEW - BUDGET OBJECTIVES

The net increase in the loan portfolio for the 1987/88 budget is projected at US$3.1 million. Gross disbursements are projected at US$3.4 million as follows: (Figures US$'000):

Loans at 3/31/87	6090
Add:	
1) Existing approvals	540
2) Working on list	800
3) To be identified	2040
Less loan repayments	(270)
TOTAL	9200

On a quarterly basis loan disbursements and total assets are projected out as follows: (Figures in US$'000)

1987/88	Loans Disbursed	Increase in Assets (Net)
First Quarter	500	1202
Second Quarter	1000	1325
Third Quarter	1000	599
Fourth Quarter	880	838
TOTAL	3380	3964

The attainment of the budget targets will require the identification and disbursement of US$2 million in new business; 5-8 loans averaging between US$400,000 to US$250,000. From a macro perspective this objective is considered achievable.

Interest income and expense data have been developed from projected average balances (schedule attached). For the 1987/88 year provision has been made for non accrual loans under the budget line "non accrual adj." This presentation permits the impact of loan arrears to be immediately recognised and for the budget year this has been imputed at 12.5% of gross accruals, US$102 thousand compared with US$37 thousand the previous year.

On an increase in assets and loan portfolio, year to year change, of 53.2% and 51.0% respectively a net income before operating expenses of US$672 thousand is budgeted, an increase of 44.5% over the prior year. The net interest margin shows quarter to quarter improvements ending the fourth quarter at 6.78% vs. the prior year 6.24%.

Total operating expenses are budgeted at US$265 thousand, and increase of 10.5% over the prior year. Detailed schedules identifying the various components of various expense categories are attached together with explanations.

The loan loss provision reflects the existing policy of 2% per annum of average loans provided for quarterly.

Net income "bottom line" is budgeted at US$257 thousand. The results are analysed under the ratio analysis and steady improvements are budgeted in all categories throughout the 1987/88 financial year; towards the objective of building a viable operation and making CFSC an attractive vehicle to investors.

Other Activities

A key CFSC objective has been to expand its activities into the wider operations of capital markets and financial services. The initial priority has been to concentrate on building up cash flow from the core lending business with expansion to occur as the company was able to support lines of businesses which would not otherwise be justified in the medium term as stand alone operations.

Stock Market - The development of a securities exchange has been one of these other lines of business and it was proposed and approved in the 1986/87 budget that CFSC acquire a seat on the Barbados Stock Exchange. CFSC's entry into this field is a move to meet its mandate to become involved in the development of capital markets.

During the past financial year CFSC has worked closely in this endeavour utilising the services of Mr. Kay who was provided under a CIDA grant. The operation of the exchange will now commence during the third quarter of 1987. Initially business will be limited and in entering into this activity CFSC will be leveraging up on existing personnel and assets. CFSC's activities would be to act as a broker building up a client base as applicable and some, but limited, potential to act as principal in making a market. The capital costs would NOT exceed US$30,000, projected out as follows:

Cost of seat and related assets	- US$ 5,000
Working capital	- US$ 5,000
Securities held for own account	- US$20,000

V CAPITAL BUDGET

Total capital expenditures are budget at US$15,000 and relate to office equipment.

VI PERSONNEL

During the second quarter of the budget year an Accountant/Office Manager will be hired. The incumbent will also be responsible for Stock Exchange activities. The staff expenses reflects this.

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APPENDIX G

EVALUATION TEAM ASSIGNMENTS AND QUALIFICATIONS

Jacqueline Coolidge served as evaluation coordinator and had primary responsibility for the evaluations of the CPDF and the EIP II Industrial Credit program. She was principal author of the sections of the report on those projects, as well as the Introduction. She also made contributions to the final chapter of the report, on Conclusions and Recommendations. Ms. Coolidge made evaluation visits in Barbados, Dominica, Grenada, and Montserrat.

Ms. Coolidge, an economist who is a member of LBII's Development Economics Group, has specialized in studies of the economic impact of development programs and in the design of private sector projects. She was a major contributor to the Evaluation of the Private Sector Investment Assistance Project, the Regional Agribusiness Development Project, and the Agribusiness Expansion Project (also projects within RDO/C's Private Sector portfolio) completed earlier in the year by LBII. She was co-author, with Mr. Lerner, of a major study on the potential for privatization in Somalia's water resource development industry. She has prepared socioeconomic impact statements for proposals ranging from the expansion of a university in rural Cameroon to the establishment of a new prison facility in Georgia. Prior to joining LBII, Ms. Coolidge worked as an independent consultant to the World Bank and the UNDP in Somalia and Indonesia. She also served as a Peace Corps volunteer for two years in Botswana.

Ms. Coolidge earned an MPA from the Woodrow Wilson School of Princeton University, majoring in economics and public policy. Her Bachelor's degree, from the Johns Hopkins University, is in international affairs and international economics.

Harvey A. Lerner was the evaluation supervisor. Mr. Lerner contributed to the conclusions and recommendations of the study, and reviewed each chapter of this report.

Mr. Lerner is Resident Project Manager in Bridgetown, Barbados for Louis Berger International, Inc. (LBII). He is responsible for evaluation, monitoring and project design activities for RDO/C's private sector program which LBII is carrying out under contract with USAID.

Mr. Lerner joined LBII in 1981 and has served as Director of Industry Studies since then. From 1979 to 1981, he was Regional Director of Litigation Consulting for Coopers and Lybrand. Earlier he served as Vice President for Consulting for Checchi and Company, where he was heavily involved in industrial development programs and in evaluation of USAID projects. He also

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directed a Checchi subsidiary specializing in management counsel to associations and non-profit institutions. Earlier, Mr. Lerner was a Special Assistant in an emergency planning agency in the Executive Office of the President of the United States, where he was concerned with international trade and industrial mobilization matters. He also has practiced law in Worcester, Massachusetts.

Mr. Lerner was graduated in 1954 from Wesleyan University in Middletown, Connecticut, where he was Phi Beta Kappa. He holds a J.D. degree from the Harvard Law School and a Master of Laws degree from the Georgetown University Law Center. He did graduate work in Business Policy at the Harvard Business School and in Economics at Georgetown University. Mr. Lerner has been active in alumni affairs in the Washington, D.C. area, serving as President of the Wesleyan University Alumni Association and as an officer of the Harvard Law School Association of Washington.

Marion Thomson was the banking specialist on the evaluation team. He had primary responsibility for the evaluation of CFSC, and wrote that chapter of the evaluation report. He also made the major contributions to the chapter on overall conclusions and recommendations. He made evaluation visits in Antigua, Barbados, Dominica, St. Lucia, and St. Kitts.

Mr. Thomson is a very senior international executive in banking and finance, with experience on USAID financial and private sector oriented projects in Morocco, Central America, and Bolivia. While Vice President of the Bank of Montreal, he oversaw the operations in Latin America and subsidiaries in Jamaica, the Bahamas, and the Cayman Islands. Mr. Thomson has served as Vice President for World Corporate Banking at the Bank of Montreal in New York, as Senior Representative in Brazil for Continental Illinois National Bank, and was a founding partner of a finance, stock brokerage and investment banking group in Sao Paulo, Brazil.

Mr. Thomson has a Masters in Public Affairs from the Woodrow Wilson School at Princeton University and has completed Harvard Business School's International Senior Managers Program. His B.A. is in Economics from the University of Texas, where he was graduated cum laude and was a member of Phi Beta Kappa.

Rodney Wilkinson was the financial analyst for the evaluation. He had primary responsibility for the evaluations of IPIP and of the EIP II factory shell program. He wrote the sections of the report on those two projects, as well as portions of the introduction and the conclusions and recommendations. He made evaluation visits in Antigua, Barbados, Grenada, St. Kitts, St. Lucia, and St. Vincent.

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Mr. Wilkinson is currently the Managing Director in Financial Services Associates in Bridgetown, Barbados. He is a Chartered Accountant with a first degree in economics. He joined Coopers and Lybrand in the United Kingdom in 1978 following a post-graduate Masters Degree course in project appraisal and planning at the London School of Economics. During his attachment with the audit firm, he gained extensive experience in financial analysis and investigations work. He joined the Management Consulting firm in the UK in 1982 and was engaged in financial accounting, management information and economic studies for, among others, public utilities (telecommunication, electricity, and water) in the Caribbean, the UK, Gibralter, and Ethiopia. He gained extensive experience in the design, development, and application of financial management information systems and the application of economic pricing theory.

Mr. Wilkinson is a Barbadian citizen, who holds both an MSc and a BSc in Economics from the London School of Economics.

APPENDIX H

Eastern Caribbean Central Bank

P.O. BOX 89. BASSETERRE, ST. KITTS, WEST INDIES.

13TH November, 1987

Our Ref:

Your Ref:

19 NOV 1987

Mr. Theodor E. Bratrud
Acting Program Officer
USAID
Regional Development Office/Caribbean
P.O.Box 302
Bridgetown
Barbados

Dear Mr. Bratrud:

Thank you for your letter of 29th October, enclosing the draft final Evaluation Report of the Infrastructure for Productive Investment Project.

The Deputy Governor and myself have read the report with much interest and have little to add to what we consider to be a very comprehensive analysis of the original concept of the project, the constraints and difficulties encountered during implementation, the inaccurate assessment of the demand for additional factory space, as well as the reluctance of the commercial banks to provide long term loan finance for periods up to 20 years, given the current excess liquidity of the banking system in the majority of the O.E.C.S territories.

Nevertheless, despite the above remarks, we do not share the conclusions arrived at that the IPIP project "should be judged largely a failure." It has been a disappointment, surely, in many respects, but we have learned many lessons which could ensure that other projects initiated in the future do not suffer the same difficulties and problems.

With hindsight, I believe that the project was hurriedly conceived to avoid the loss of funds which had been earmarked for the region, and there was insufficient consultation with the commercial banks and the manufacturing sectors to determine their likely response to the Project. Some Governments' response was also lukewarm, having regard to the funding which was available to them on much softer terms from other sources.

The Eastern Caribbean Central Bank is grateful for the opportunity provided to work in close collaboration with USAID on this Project, and look forward to cooperating further with your Organisation in the economic development of the O.E.C.S Region.

Yours faithfully

CECIL A. JACOBS
GOVVERNOR