

PROJECT ASSISTANCE COMPLETION REPORT

PROJECT TITLE: Infrastructure for Productive Investment

PROJECT NUMBER: 538-0088

FUNDING PERIOD: FY '84- FY '87

LOP FUNDING: Original \$12 million,
reduced \$6 million

IMPLEMENTING AGENCY: Eastern Caribbean Central
Bank (ECCB)

PACD: September 30, 1987

I. PURPOSE

The purpose of IPIP was to provide the physical infrastructure required for expanded private production which would result in increased employment in the Eastern Caribbean territories. Through the project AID would finance privately owned and managed industrial estates and individual factory shells which would primarily house export-oriented manufacturers.

II. BACKGROUND

IPIP was developed 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 AID Employment/Investment Promotion II Project (EIP II, 538-0012) which had provided for the construction of some publicly owned factory space,
- C. The AID Project Development Assistance Program (PDAP, 538-0042) which encouraged foreign investment in the Caribbean, and
- 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. These countries faced many problems which needed to be addressed in order to realize the potential that

existed for growth of export-oriented industries. Among the problems identified was the scarcity of economic infrastructure. If this problem was not addressed, it would potentially 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. The project paper stated:

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 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.

III. SUMMARY OF INPUTS AND ACCOMPLISHMENTS

Under IPIP, a \$12 million loan was initially made available to the ECCB for on-lending to private investors through commercial financial institutions. This amount was subsequently reduced to \$6 million due to the lack of demand. Grant funding in support of this loan was provided to the ECCB from the Investment Promotion and Export Development Project to hire consulting engineering services, a project manager, and technical assistance for investors and participating commercial banks.

Over the three year period August 1984 to August 1987, 29 sub-projects were considered by commercial banks in the region for funding under IPIP. Five of these were approved by the Eastern Caribbean Central Bank. The other projects were cancelled or rejected by the commercial banks or the Eastern Caribbean Central Bank because of non-viability or because the sponsors shelved the projects.

Approximately \$1.8 million of the loan funds were utilized for construction of about 62,000 sq. ft. of factory space in Antigua and Grenada. This space facilitated manufacturing activities including pre-fab housing, garments, industrial gases and furniture. Remaining balances will be re-obligated to priority uses within RDO/C.

IV. DEVELOPMENT IMPACT

IPIP contributed to the commencement of five projects involving total investments of about \$3.241 million. There was a mix of investments between local and foreign investors. Employment generation was modest with 240 production jobs having been provided during the life of the project. This impact is marginally increased through recognition of the temporary construction jobs that resulted from the project. None of the firms occupying space had started exporting as of the PACD.

V. RECOMMENDATION FOR CONTINUED MONITORING

No continuing monitoring is recommended.

VI. LESSONS LEARNED

The project failed to meet its objectives primarily due to flawed design assumptions:

1. That the demand for factory space exceeded supply and
2. That foreign investors would be willing to come into a region of unproven industrial experience with unreliable demand estimates and construct factory space on speculation.

The principle lesson is that in designing projects to satisfy market deficiencies, the design must provide for prompt reaction to the perceived deficiency or be sufficiently flexible to respond to unforeseen cyclical changes in economic activity. Secondly, market surveys/feasibility studies should be subject to verification before being used as a basis for funding allocation.

06/15/88:06251

4

Clearances:

C/PSO, C. Patalive (in draft)
PDO, J. Wocten (in draft)
C/PDO, K. Finan (info)
C/PRM, D. Mutchler (in draft)
CONT, M. Matthews (in draft)
D/DIR, A. Bisset AB