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

JAMAICA

PROJECT PAPER

EXPORT DEVELOPMENT AND INVESTMENT PROMOTION

AID/LAC/P-596

PROJECT NUMBER: 532-0135

UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT PROJECT DATA SHEET	1. TRANSACTION CODE <input type="checkbox"/> A = Add <input checked="" type="checkbox"/> C = Change <input type="checkbox"/> D = Delete	Amendment Number _____	DOCUMENT CODE 3
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2. COUNTRY/ENTITY USAID/Jamaica	3. PROJECT NUMBER 532-0135
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4. BUREAU/OFFICE LAC	5. PROJECT TITLE (maximum 40 characters) Export Development and Investment Promotion
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6. PROJECT ASSISTANCE COMPLETION DATE (PACD) MM DD YY 03 15 94	7. ESTIMATED DATE OF OBLIGATION (Under 'B.' below, enter 1, 2, 3, or 4) A. Initial FY 90 B. Quarter 2 C. Final FY 93
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8. COSTS (\$000 OR EQUIVALENT \$1 =)						
A. FUNDING SOURCE	FIRST FY 1990			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total	1,900	400	2,300	5,270	1,730	7,000
(Grant)	(1,900)	(400)	(2,300)	(5,270)	(1,730)	(7,000)
(Loan)	()	()	()	()	()	()
Other U.S.	1.					
	2.					
Host Country & Private Sector		339	339		2,750	2,750
Other Donor(s)						
TOTALS	1,900	739	2,639	5,270	4,480	9,750

9. SCHEDULE OF AID FUNDING (\$000)									
A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) ARDN	722	840				800		1,600	
(2) PSEE	732	840				1,500		5,400	
(3)									
(4)									
TOTALS						2,300		7,000	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)	11. SECONDARY PURPOSE COD.
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12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)	
A. Code	B. Amount

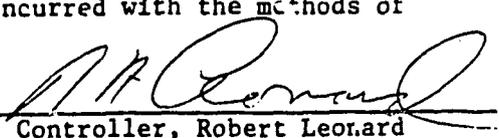
13. PROJECT PURPOSE (maximum 480 characters)

To Increase Exports and Diversify Investments.

14. SCHEDULED EVALUATIONS Interim MM YY MM YY Final MM YY 03 93 03 93	15. SOURCE/ORIGIN OF GOODS AND SERVICES <input checked="" type="checkbox"/> 000 <input type="checkbox"/> 941 <input checked="" type="checkbox"/> Local <input type="checkbox"/> Other (Specify)
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16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment)

The USAID/Jamaica Controller has reviewed and concurred with the methods of implementation and financing included herein.


 Controller, Robert Leonard

17. APPROVED BY	Signature William R. Joslin	18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION MM DD YY
	Title Director, USAID/Jamaica	
	Date Signed MM DD YY 03 15 90	

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PROJECT AUTHORIZATION

NAME OF COUNTRY: Jamaica

NAME OF PROJECT: Export Development and Investment Promotion

NUMBER OF PROJECT: 532-0135

1. Pursuant to Part I, Chapter 1, Sections 103 and 106 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Export Development and Investment Promotion Project for Jamaica, involving planned obligations of not to exceed Seven Million United States Dollars (US\$7,000,000) in grant funds (the "Grant") over a four-year period from the date of authorization, subject to the availability of funds in accordance with the A.I.D./OYB allotment process, to help in financing foreign exchange and local currency cost for the Project. The planned Life of Project is four years from the date of initial obligation.

2. The Project will provide technical assistance and training to Jamaican existing and potential exporters through private and public Jamaican institutions involved in exports. In addition, the project will promote domestic and foreign investments and provide credit to exporters and small businesses, particularly those with export potential. Through the implementing institutions, assistance will be provided to Jamaican producers and exporters in identifying, designing and developing exportable products as well as in market development.

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

a. Source and Origin of Goods and Services, Nationality of Suppliers

Commodities financed by A.I.D. under the Grant shall have their source and origin in Jamaica or the United States, except as A.I.D. may otherwise agree in writing. Except for ocean shipping, the suppliers of commodities or services shall have Jamaica or the United States as their place of nationality, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Grant shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States. Motor vehicles financed by A.I.D. under the Project shall, except as A.I.D. may otherwise agree in writing, have their origin in the United States.

b. Insider Lending

Under the credit component of the project, no loans may be extended to: (1) policy making and management officials of the National Development Foundation of Jamaica (NDF/J) and Jamaica Promotion Limited (JAMPRO); (2) officers and management staff of firms auditing the NDF/J and JAMPRO, or (3) members of the immediate families (parents, brothers, sisters and children) of the persons named above.

Date: March 15, 1990


William R. Joslin
Director
USAID/Jamaica

Clearance:

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OEPE:PCrowe pc

DDIR:MZak ✓

RLA:EDragon EA

JAMAICA: EXPORT DEVELOPMENT AND INVESTMENT PROMOTION

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LIST OF ACRONYMS

CIDA	Canadian International Development Agency
DAEC	Development Assistance Executive Committee
EEC	European Economic Commission
ESF	Economic Support Funds
GDP	Gross Domestic Product
GOJ	Government of Jamaica
GTZ	German Development Agency
HCC	Host Country Contract
IDB	Inter-American Development Bank
IESC	International Executive Service Corp
IQC	Indefinite Quantity Contract
JADF	Jamaica Agricultural Development Foundation
JAMPRO	Jamaica Promotions, Ltd.
NDF/J	National Development Foundation of Jamaica
NIBJ	National Investment Bank of Jamaica
PADF	Pan American Development Foundation
PD	Policy Determination
PIOJ	Planning Institute of Jamaica
PSOJ	Private Sector Organization of Jamaica
SBAJ	Small Business Association of Jamaica
SEC	Securities Exchange Commission
TC&TG	Technical Consultations and Training Grant
TDB	Trafalgar Development Bank
USAID	United States Agency for International Development

Executive Summary

A. Summary Project Description

Jamaica must increase exports and promote investments to address the interrelated problems of unemployment, stagnant growth, a large external deficit, and insufficient foreign reserves. The Government has taken significant steps to address these problems, particularly through policies in the areas of pricing, exchange rates, privatization, and investment climate. In addition, Jamaica is a good site for investment because of its geographic location, its political stability, government support of free enterprise, and its abundant labor force.

However, constraints related to low productivity, financial market deficiencies, and lack of business infrastructure are now hampering Jamaica's excellent potential for increased exports and investments. Thus, further steps must be taken to complement the above GOJ actions, facilitate the export approval and documentation process, improve the local private sector capacity to produce goods efficiently to meet international standards, and attract investors, both foreign and domestic. This project will reduce constraints to export development and investment diversification through policy dialogue and inputs (technical assistance, training, and credit).

The project goal is to promote growth with equity. The project purpose is to increase exports and diversify investment. The project consists of a series of interrelated activities to resolve constraints involving low productivity, financial market deficiencies, and lack of business infrastructure.

The project design follows from four assessments (financial markets, small business, export marketing and feeder industries) undertaken by teams of American and Jamaican consultants. The teams were given policy guidance by consultative groups which included members of the private sector, USAID, and GOJ. More importantly, this collaborative approach developed a general consensus on the constraints and how to resolve them. The project paper evolved from this collaboration.

The Project will be financed with an \$7.0 million grant over four years, with an initial obligation of \$2.3 million in FY 1990. The Jamaica Promotions Limited (JAMPRO), the main implementing agency, will have overall project management responsibility and will be directly responsible for implementing technical assistance, training, commodity procurement, and trade and investment promotion activities.

JAMPRO will also make sub-grants to qualified organizations to support activities in small business development, and institutional development. IESC will receive a grant to continue its provision of technical assistance to local firms. NDF/J will receive financing for use in its on-going program of lending to small businesses, and a separate increment of funding to be devoted to finance feeder industry activities. Policy development activities will be financed directly by AID, with inputs from the relevant public and private sector organizations. Decisions on the allocation of funds within individual project components will be made by a joint GOJ-USAID Project Coordinating Committee.

The project will increase exports and diversify investment, improve industrial productivity, develop trained personnel, broaden the industrial ownership base, and generate employment. Sectors for project activities will be determined by the Project Coordinating Committee, based on analysis of market conditions and anticipated impact. Likely areas based on market trends to date include apparel, agribusiness, furniture, electronics, horticulture, and tourism. Lautenberg and Policy Determination No. 71 limitations on AID funding will be followed.

Based on the analyses summarized in the project paper, the project is technically, economically, financially, socially, administratively, and environmentally sound and ready for implementation. Project feasibility was assessed by the project committee and a U.S. consultant with a strong private sector background. The project meets all statutory criteria (see Annex C).

B. DAEC Issues

A DAEC review of the EDIP Project Paper (PP) was held in AID/W on August 8, 1989. The DAEC decided to delegate approval authority to USAID/Jamaica for a scaled-down project totaling \$7.0 million over a three-year period, per STATE 315797 of October 2, 1989. The approval to authorize the project was given to the Mission, subject to a revision of the PP to satisfy certain suggestions made during the meeting. These suggestions are cited below and include a discussion on how the revised project design incorporates them.

a. Suggestion No. 1: "In the revised PP, the mission should disaggregate the financial analysis section of the PP, and undertake the appropriate analysis for those activities which normally require this analysis."

Answer: The revised project paper now includes separate institutional and financial analyses of the main implementing agencies--JAMPRO and NDF/J. No in-depth financial analysis was conducted of JAMPRO's operations as the project will only provide technical assistance, training, and some commodities to further strengthen JAMPRO's capability to carry out its export and investment promotion activities. JAMPRO will assign existing personnel as counterparts to the project, therefore the impact of the project on the GOJ's recurrent budget will be minimal. USAID and NDF have been working on a financial analysis which is to demonstrate that NDF/J will be able to function on a self-sustaining basis by the PACD, but it is not yet complete. A condition Precedent will be included in the Project Agreement, to ensure that no funds are disbursed to NDF/J until USAID is satisfied with the institution's financial projection statements.

b. Suggestion No. 2: "Provide an institutional analysis of the various implementing agencies."

Answer: Separate institutional analyses have been conducted for both JAMPRO and the NDF/J. These analyses are contained in the Project Paper Annexes.

c. Suggestion No. 3. "Project management/monitoring - a clearer presentation of the various roles and responsibilities of each implementing agency (for each component) should be provided."

Answer: Project management, monitoring, evaluations, and auditing arrangements, and the role of each participating agency are discussed in detail in the implementation section of this Project Paper.

d. Suggestion No. 4: "Evaluation Plan - the revised PP should contain this plan, including a description of the Management Information System, and the role of program audits."

Answer: This plan is fully discussed in Part III of this paper. The PP now discusses the data gathering process and the responsibility for each step of the process.

e. Suggestion No. 5: "Management and Monitoring of the IESC component".

Answer: Part III of the Project Paper now discusses the IESC program and the related implementation arrangements.

f. Suggestion No. 6: Feeder Industries. "...the PP should more carefully outline the selection process for the first of the Feeder Industry activities, including the roles of JAMPRO and the mission, anticipated selection criteria (particularly the principle of cost sharing), how the grant will be monitored and by whom, how the objective of achieving a spread effect will be implemented and the role of the NDF loan fund. Those specific areas to be funded with A.I.D grant funds should be defined consistent with A.I.D policy. The initial project authorization should limit the project to funding one competitively selected Feeder Industry activity."

Answer: The discussion contained in Part III incorporates the appropriate DAEC suggestions on this topic. The implementation arrangements section, particularly the section discussing the

creation of the Project Management Unit in JAMPRO and the establishment of a Project Coordinating Committee composed of USAID, JAMPRO, and private sector representatives, further addresses the DAEC concern on the feeder industry activity.

g. Suggestion No. 7: Investment Promotion. "This component needs to be developed further. What is the criteria (in general) for selecting joint venture partners. What has been the Jamaican joint venture experience in the past? What is Mission's approval role (if any)."

Answer: Part I briefly clarifies the scope of this activity. To a large extent, it represents a follow-on to current JAMPRO efforts. The Project Coordinating Committee will review each potential joint venture activity and make recommendations on the support that the project can provide based on the activity's relevance to the project purpose.

h. Suggestion No. 8: Stock Exchange: "Until there is a policy and political decision to open access to the exchange, consideration of possible assistance to the Stock Exchange is premature. The revised PP, therefore, should be limited to consideration of assistance to help guide the GOJ in the options to be considered for restructuring the exchange. Defining and authorizing assistance to implement changes in the Stock Exchange should be left to a future amendment of this project or a new project."

Answer: The Stock Exchange component is no longer a part of the initial project. The project will provide some funding for policy studies to fill information gaps and provide the basis for evaluation of future assistance in this area.

1. Suggestion No. 9: Other components: "For the activities involving small business support, private sector organizations, and public sector organizations, the following areas should be included in the revised PP: the selection criteria to be followed; a description of the process for selection and implementation monitoring (who will participate, who will make the final decision on selection, and how will the principle of cost be applied to the private sector entities)."

Answer: The appropriate suggestions have been incorporated in the revised Project Paper. See Part I, Project Rationale and Description and Part III, Implementation and Monitoring Plan. Also, the joint GOJ/USAID project design committee reviewed all possible activities that can contribute in a significant way to the attainment of the project purpose. The revised Project Paper has been scaled down to reflect the priority activities that should be included in the project, consistent with their

feasibility and the limited funds available. Parts I and III of this Project Paper now include a full discussion of such activities, criteria for funding of selected activities such as feeder industry arrangements, criteria for participation in the credit component, etc.

j. Suggestion No. 10: Logical Framework. "A number of outputs presented in the log frame matrix do not seem to address directly and specifically the stated purpose of increasing exports and diversifying investments. The outputs of the log frame should, therefore, be reformulated to form an integrated set of activities that are necessary and sufficient to achieve the stated purpose of the revised project paper. All outputs should be discussed in the narrative of the revised PP."

Answer: The Logical Framework has been revised. The EOPS and the outputs are fully consistent with the purpose of the project.

k. Suggestion No. 11: Project Design Parameters. "Activities are to be scaled-back to an LOP of 3 years with a commensurate total funding of NTE \$7.0 million.

Answer: The revised project has been scaled-back to an LOP of 4 years with a commensurate funding of \$7.0 million, and AID/W approval has been obtained for a 4 year LOP. The three year LOP would not have enabled the project to achieve expected accomplishments under the NDF, feeder industry and business organization development components.

C. Environmental Determination

Per STATE 281362 of September 10, 1989, the LAC Bureau Environmental officer has concurred with the IEE's recommended threshold decision of a negative determination.

D. Delegation of Authority

STATE 023931 dated January 24, 1990 gave AID/Washington approval for the Mission to authorize the subject project with a life-of-project of four years.

I. Project Rationale and Description

A. Project Rationale

1. Opportunities

a. Background

Until Hurricane Gilbert in September 1988 (which caused losses of US\$1 billion in capital stock and US\$800 million in foreign exchange earnings), it appeared that Jamaica had begun to turn the economic corner. Due to the implementation of structural adjustment and favorable movements in international commodity prices, the economy was performing in an impressive fashion. Economic growth in 1987/88 was 5.5 percent, up from 4 percent in 1986/87. Inflation was under 7 percent, and unemployment, although still high, dropped to 21 percent in 1987 from 28 percent in 1980. The public sector deficit declined to 5.4 percent of GDP in 1987/88 from 19 percent in 1983/84. Non-traditional exports reached \$223 million in 1987, 1.5 times the corresponding figure for 1983.

Jamaica has implemented a substantial number of macro and structural reforms. Faced with a severe balance of payments imbalance and very large public sector deficit, the Jamaican government implemented policies favoring exports and investments by providing incentives to investment, removing obstacles to exports, reducing the size of the public sector, diversifying the economic structure, and restoring viability to the external accounts. Among the most important economic reforms were:

- o A more realistic foreign exchange rate with allocations made by an auction system;
- o Reduction of tariffs and elimination of quantitative restrictions and licensing requirements;
- o Implementation of a comprehensive tax reform program to revise personal, property, and corporate taxes: and
- o Improvements in the efficiency of public services and state enterprises.

These policy reforms have substantially improved the country's economic framework. However, it is clear that the process is not yet complete: producing for export still generally yields less return than importing or manufacturing for local consumption, and structural inefficiencies make most local firms uncompetitive. Jamaica continues to face extreme vulnerability to exogenous events and in fact was forced to temporarily suspend the action in October 1989. It is highly vulnerable in three areas: trade balance, debt burden, and sensitivity to events in the United States, its chief trading partner. A small and open economy, Jamaica is heavily dependent on a wide

range of imported goods and, to earn foreign exchange to pay for them, on a few commodities (bauxite, sugar), tourism and a narrow manufacturing base. In 1987, Jamaica's imports of goods and services amounted to 42 percent of GDP. Its debt burden, estimated at US\$4 billion, equals 140 percent of GDP. Debt service equals 45 percent of exports, and interest payments account for 21 percent of exports of goods and services. Finally, the country is heavily dependent on the United States for tourists (75% are from the U.S.) and for purchase of non-traditional exports.

Jamaica's non-traditional exports grew steadily in the 1983-1988 period at an average annual rate of 10.4 percent. The share of non-traditional exports as a percentage of total exports increased from 22 percent in 1983 to 32 percent in 1987, largely as a result of adjustments in the exchange rate and removal of quantitative import and licensing restrictions. The main non-traditional exports are foodstuffs, beverages and tobacco, apparel, and miscellaneous manufactures, which include furniture, metal parts, electronic assembly, and other products. Over 75 percent of Jamaica's non-traditional exports are manufactures. The most dynamic non-traditional export industries are apparel and other forms of light manufacturing. Jamaica is now the second largest apparel exporter in the Caribbean. Between 1982 and 1987 employment in the apparel export industry increased twelvefold from 2,000 persons to 24,000, and export earnings skyrocketed from US\$12 million to US\$187 million. Prospects for the industry are encouraging. Other sub-sectors with growth potential are electronics and furniture. In addition, processed foods, with low import content and high value added, have become important export products, with reasonably good prospects for juices, concentrates, sauces, and ethnic foods. However, the market is highly competitive, and export volumes will remain a small share of total exports. Also, horticultural products may become a major export sector.

A major opportunity exists to expand small business participation in exports and investment. Small businesses provide a significant source of employment for workers with minimal training. Jamaican small enterprises support an average of 11 employees and have assets between J\$31,000 (US\$5,600 equivalent) and J\$1,015,000 (US\$185,000). Sales vary highly depending on the sector, from J\$116,000 (US\$21,000) to J\$1,100,000 (US\$200,000) in rural areas and from J\$317,000 (US\$58,000) to J\$1,512,000 (US\$275,000) in Kingston.

In Jamaica, small businesses predominate in five economic sectors: agriculture, manufacturing, tourism, hospitality and entertainment services and miscellaneous services, and contribute approximately 26 percent to GDP. They also participate in construction, transportation, public utilities, and communication, but dominate only very small pockets. For example, in construction, they dominate the repairs and maintenance services subsectors, while in transport, public utilities and communications they are almost sole providers of public ground transportation services. The average annual growth rate in sectors dominated by small businesses is 2.6 percent, while for large scale businesses, that figure is 1.8 percent.

According to a recent survey, Jamaica's labor force in July 1988 was estimated at 1,072,700, representing about 71 percent of the population 14 years and over. About 40 percent of the employed labor force is self-employed,

including those engaged in small business. Over 90 percent of the principals now depend on the business as their sole source of income. Small businesses employ 80,000 persons and support some 320,000 people (about 15 percent of the population).

Women's participation in the work force is directly increased by small business development. Approximately 48 percent of the principals in all small businesses are women, and 51 percent of the principals in rural-based small businesses are women. Women account for 47 percent of the national labor force and have an unemployment rate of 27 percent. Another group that accounts for a significant proportion of the unemployed are young men (14 to 24 years old) which are almost 30 percent of the total male labor force and have an unemployment rate of 23 percent. Small business development will have a pronounced effect on increasing income and employment levels of these target groups.

b. GOJ Priorities

The Manley Government, elected in February 1989, has moved quickly to confirm its support for an export led economic growth strategy. The Prime Minister has continued the economic adjustment program, for example, by reaching agreement with the IMF on an extended program and meeting its targets for this program's first quarter; creating a realistic budget for the new fiscal year that brings the overall public sector deficit down to 4.3 percent; and accelerating several key tariff reductions. It has sold another 20 percent of the telephone company to a private investor, sold eight hotels to private sector buyers, and completed several other long pending privatizations. It has shown enthusiastic support for a vigorous private sector. The government appears committed to structural adjustment, fiscal restraint, stimulation of domestic savings and investment, and reliance on the private sector. These priorities are fully consistent with the project.

c. USAID/Jamaica Priorities

The Project responds to the goals outlined in the CDSS of assisting in short term economic stabilization, encouraging structural reforms leading to sustained economic growth, and assuring a wider distribution of the benefits of growth. It is also consistent with the Mission's private sector strategy to strengthen the private sector and promote exports. The project will provide institutional benefits, will expand the number of participants in productive activities and raise skill levels, and will contribute to the policy dialogue relating to private sector exports and investment. This project supports the Mission's integrated policy dialogue activities.

This project will support the private sector's contribution to economic development. The project will foster growth with equity by removing constraints to exports and investment through policy reform at the government level and a hands on approach to technical assistance and training at the firm level. Sector specific interventions to expand export industries (apparel, furniture, etc.) will demonstrate this approach.

The project is a logical outgrowth of the Mission's experience in export and investment promotion, most notably the Technical Consultations and Training Grant (TC&TG). However, this project differs from TC&TG because it is more

targeted in activities, export sectors and implementing agencies and more focussed on removing the policy and production constraints to exports and investment. Other USAID activities which support this project are: Private Development Bank Project, Health Sector Initiatives Project, Crop Diversification/Irrigation Project, National Development Foundation Project, Management Education Project, Inner Kingston Project, ESF/PL-480 policy dialogue, Agricultural Export Services Project, proposed Microenterprise Project, and proposed Inner Kingston Phase II Project.

2. Constraints

USAID has extensive experience with private sector development, both in policy dialogue and in specific projects in manufacturing, agribusiness, agriculture, and health. In developing this project, USAID decided to take a fresh look at current constraints by stepping away from previous activities and developing a project responsive to current needs for export and investment expansion. Therefore, USAID contracted four assessments, to be performed chiefly by Jamaicans but with some assistance from American experts in specific fields. The four assessments were undertaken in 1988-1989 and covered: small business environment, feeder industries, export marketing process, and financial markets. The assessment contractors worked closely with USAID, JAMPRO, PSOJ, NDF/J, SBAJ and other private sector organizations. JAMPRO co-sponsored three assessments, and joint working groups participated in their design and review. The fourth was co-sponsored by the Private Sector Organization of Jamaica.

The assessments revealed the following general conclusions:

- o Supply (i.e., production) constraints, rather than external demand for Jamaican goods, are the principal hindrance to expanding exports. These constraints, which run the gamut from lack of middle management and skilled labor to a dearth of investment and working capital, are surmountable. Consequently, the Project's major focus is reduction of the low productivity group of constraints. The four assessments noted that the resolution of constraints would depend upon a heavy concentration of technical assistance and training. We have budgetted technical assistance as a foreign exchange expenditure; however, local experts will be used to the maximum extent possible.

- o The fundamental policy structure favoring exports and investment is now largely in place, but further efforts are required to strengthen policies and to streamline administrative approval processes, to remove biases against small and medium size businesses, to eliminate vestiges of the framework of control that was part of the earlier closed economy, and to provide more ready access to foreign exchange.

- o JAMPRO's export and investment promotion program has been reasonably successful in providing services to potential investors, attracting contract production in the garment industry, serving as an intermediary between exporters/investors and the government bureaucracy, and providing market information.

o Constraints to export and investment development are interdependent. One cannot use a "single purpose" approach to resolve these constraints with any assurance of success because the constraints impact all business activities, including production, marketing, finance, and management. Consequently, this project is an integrated approach to reducing major constraints.

The assessments also revealed a lack of public confidence in the private sector as the engine of economic growth. Although imprecisely defined, many people are skeptical about the fairness of the economic rules-of-the-game, the honest functioning of market forces, and the country's export-led growth strategy. This attitude constrains productivity in two ways. First, there is a strong perception that recent economic reforms have not created a "level playing field." This belief is particularly marked in the financial area, where many question the fairness of credit access. Second, the work ethic required to keep the Jamaican labor force competitive and able to achieve productivity gains may be impeded because access to the opportunities and benefits of economic growth are not sufficiently widely shared. While these attitudes do not include a desire for state control of the economy, they may limit the political constituency for accelerating implementation of an export oriented growth strategy.

In developing this project, USAID concentrated on discovering the chief constraints to expanding exports and investment as seen by Jamaican businesspeople. This project is directed at reducing these constraints, although it does not purport to be able to overcome them all. The constraints are interrelated: reducing one constraint requires addressing another constraint.

For ease of presentation, constraints are described in three groups: (a) low productivity, (b) financial market deficiencies, and (c) lack of business infrastructure. Each group contains several constraints; however, these constraints overlap and are not mutually exclusive. For instance, in a specific situation the constraint business inefficiencies (in the low productivity group) may impact negatively also on lack of equity financing (in financial market deficiencies group) and insufficient factory space (in lack of business infrastructure group).

It is, of course, important to remember that while removing these constraints will produce major benefits, the economic return will be maximized only to the extent that constant improvement takes place in Jamaica's policy framework.

The key constraints are outlined below, followed by a discussion of each.

Constraints

a. Low Productivity Group

- (1) Business Inefficiencies
- (2) Lack of Managers and Skilled Workers
- (3) Lack of Backward and Forward Linkages
- (4) Unreliable Supplies of Inputs

- b. Financial Market Deficiencies Group**
 - (1) High Cost of Credit
 - (2) Lack of Term Financing
 - (3) Lack of Equity Financing
 - (4) Lack of Small Business Credit
 - (5) Delays in Accessing Foreign Exchange

- c. Lack of Business Infrastructure Group**
 - (1) Weak Small Business Support Services
 - (2) Inefficient State Owned Enterprises
 - (3) Unclear Investment Incentives
 - (4) Cumbersome Export/Import Procedures
 - (5) Inadequate Transportation
 - (6) Insufficient Factory Space

Each constraint is described briefly below.

a. Low Productivity Group

The four assessments revealed that existing industries face many constraints to expansion. Major constraints to expanding existing capacities and increasing competitiveness arise from low productivity, including: (1) business inefficiencies, (2) lack of skilled workers and managers, (3) lack of backward and forward linkages, and (4) inadequate and unreliable supplies of inputs.

(1) Business Inefficiencies

The major constraint is inefficient business operations. Some factories use obsolete equipment which frequently breaks down, requiring spare parts and skilled repairmen which are in short supply. Many plants have production design flaws, with inadequate quality control early in the process, resulting in uneven standards of finished goods. Packaging of finished products is substandard, resulting in diminished international and even local competitiveness. Small businesses, in particular, suffer from a lack of support services to help increase productivity.

Small businesses often underutilize both labor and capital. Their productivity constraints include lack of: production planning and control, labor and staffing, plant and equipment, product design, inventory and quality control, and transportation. Also, productivity is affected by unreliability of supplies, lack of affordable space, and expensive working capital. Staffing problems exacerbate production constraints. Small business organizational structures are often flat, with management immersed in day-to-day administration, which could be handled by clerical staff, with little time for production planning. Supervisors and technical staff are often highly skilled, but overspecialized production processes fail to utilize their talents, resulting in time wastage.

Lack of marketing expertise also constrains export expansion and diversification. Small companies have difficulty understanding the requirements of foreign markets, spend inadequate amounts of time on marketing

strategies, and underestimate costs of market development. Once an overseas market is developed, firms may lose their niche because of inadequate supplies, poor distribution networks, outdated packaging, and high cost. Small firms, especially those outside of the apparel industry, require assistance in arranging contract production (e.g., preparation of samples and knowledge of supply requirements); identifying and seeking foreign joint venture partners which can provide a guaranteed market, capital, and know-how; and linking up to a trading company which can distribute products.

(2) Lack of Managers and Skilled Workers

Human resource constraints, especially lack of middle management and supervisory personnel, are evident across the entire spectrum of economic activity, from financial services to the garment industry. Every sector surveyed identified lack of middle management and skilled workers as a major production bottleneck in terms of loss of efficiency and down-time. The problem has two aspects. First, internally promoted workers are familiar with their production jobs but lack competence in other skills (marketing, accounting, administration) related to their new positions. Second, new college graduates (CAST, UWI) have academic experience but lack "hands on" knowledge of industry. This situation places a heavy demand on individual companies to provide in-house training. Also, small manufacturers and exporters face the very real possibility of having their trained employees hired away by larger firms which offer health and life insurance, pension plans, transportation, meal allowances, housing assistance, and training. This problem has received considerable attention, and initial efforts are underway to establish apprenticeship programs as part of the academic curriculum and to redesign sector specific training programs.

Jamaica has had experience implementing a modernization program in the garment industry. In the early 1980's, the government targeted the apparel sector for assistance because of its potential to earn foreign exchange and create employment, especially among women. Kurt Salmon Associates was contracted to provide inplant modernization/training services to 17 firms (of which six were local). While this assistance was beneficial, it was also expensive and excluded small and medium manufacturers. USAID filled this vacuum with its Parallel Program, initiated in 1986 under the TC&TG project, to train JAMPRO industrial engineers and provide technical assistance to small and medium size Jamaican owned firms. This pilot program focused on problems of production systems and engineering, management and supervisory skills, cost controls, and marketing.

(3) Lack of Backward and Forward Linkages

The productive sectors are not integrated vertically, with financial, supply, and marketing relationships between "lead" export firms and small producers of inputs. Small businesses frequently lose export opportunities because of the small size of individual operations, lack of export marketing skills, lack of economies of scale, difficulty in accessing raw materials, and bureaucratic disincentives. Strong industry integration, cost sharing of supplies and marketing, specialization to increase efficiency, and consistent export oriented production and risk sharing are absent.

(4) Unreliable Supplies of Inputs

Unreliable and poor quality supply of local raw materials is a serious problem, especially for the processed foods, furniture, and tourism industries. For example, supplies of raw materials - local or foreign - are inadequate. Local producers are small, undisciplined in meeting production schedules, and hampered by equipment breakdown; lack warehouse space and working capital for inventories; and lack adequate quality control procedures. Foreign raw materials and parts are delayed by slow access to foreign exchange through the auction system, resulting in delayed production and delivery schedules.

b. Financial Market Deficiencies Group

The chief constraints in the financial markets are: (1) high cost of credit, (2) lack of term financing, (3) lack of equity financing, (4) lack of small business credit, and (5) delays in accessing foreign exchange. These constraints crosscut other constraints and need to be mitigated to increase exports and investment.

(1) High Cost of Credit

The cost of credit normally ranges upwards from 27 percent for commercial transactions. The Government indirectly controls lending rates by fixing the interest rate for savings accounts (presently 18 percent) and bank reserve requirements and, more recently, credit controls. Banks, after paying for deposits and allowing for reserve requirements (presently 19 percent for commercial banks and 6 percent for merchant banks), have a relatively high cost of funds, to which they must add other lending costs. The GOJ maintains that a high interest rate structure is necessary to support its foreign exchange policy and prevent capital flight. In addition, the GOJ sets by decree a variety of interest rates for special sectors (housing mortgages, agriculture, and others). More competitive financial intermediaries should substantially reduce constraints resulting from controlled financial markets.

(2) Lack of Term Financing

Commercial banks do little term lending, in part because borrowers cannot meet collateral requirements (typically two to three times the loan amount) and in part because high yields on Government of Jamaica T-Bills and Bank of Jamaica certificates of deposit (in some cases 19 percent) discourage term lending. Only established bank clients willing to pay high interest rates have access to credit, and the proceeds from these borrowings are often oriented to commercial transactions rather than productive investment.

(3) Lack of Equity Financing

The financial markets are conservative and controlled by a few powerful institutions, which tend to lend long term only to large, reliable companies. The banking system is oriented to short term transactions, with term credit extended only to preferred clients. Venture capital is essentially non-existent, and the Jamaican Stock Exchange is characterized by tight control by only eight brokers, limited offerings and trading of shares, and practices and procedures in need of modernization.

These characteristics promote a perception that the financial markets are dominated by insiders and those with privileged information. In the case of the stock market, even sophisticated insiders (e.g., bankers) are excluded from entry into the brokerage business. Recent studies show a strong feeling that the country's business affairs are not played on a level field. Whether right or wrong, a popular perception is that the door to new business opportunities is partially closed.

Stock exchange procedures need modernizing. Current procedures are manual. The transfer of a stock certificate is time consuming because it requires approval of the stock exchange, the board of directors of the issuing company, and the Ministry of Finance to verify the transfer. This process takes months rather than days. The trading floor is a manual operation that precludes confidential sales and enhances the opportunity for unfair practices. The exchange trades only ordinary shares, preferred shares and corporate bonds.

Jamaica's weak financial markets contribute along with other interwoven constraints (low plant productivity, absence of spare parts, inappropriate training, etc.) to make many Jamaican export products uncompetitive in world markets. A strong and efficient financial market is directly linked to growth in exports and a widening of the ownership base.

(4) Lack of Small Business Credit

Fifty-six percent of small businesses surveyed indicated that lack of credit and technical assistance are the major constraints to start-up and expansion. Many small businesses cannot obtain funds at prevailing interest rates and rely on family members for investment and working capital. Small business access to credit is constrained by: lack of collateral, inadequate business plans and cash flow projections, inadequate and unaudited balance sheets, lack of information on credit programs, and the inability to process loan applications.

Entrepreneurs and financial institutions are locked into a vicious circle. The salient characteristics are:

- o most companies are seriously undercapitalized, with debt:equity ratios ranging from 3:1 to 9:1;
- o company owners are unwilling to share ownership and finance start up and expansion with family resources and bank credit. In part this is a cultural problem, but in part it is the result of inadequate and inefficient capital markets;
- o banks demand large amounts of collateral as security (as high as 3:1) and prefer real estate guarantees to project (asset based) lending; and
- o owners customarily withdraw company earnings to the maximum possible extent to create the outside assets required to collateralize additional debt;

For example, small and medium size apparel manufacturers may be unable to

expand factory size because they lack the collateral to secure long term financing despite their track records of successful exports and demonstration of contract orders sufficient to service additional debt. Many new business start-ups are financed through the informal system, primarily by personal and family savings. The exception is the National Development Foundation. This institution has developed an excellent reputation for promoting and financing new small business start-ups. However, its resources are limited and it reaches only a small percentage of businesses.

(5) Delays in Accessing Foreign Exchange

The current (albeit temporarily suspended) auction system to allocate foreign exchange limits exports and investment in several ways, although it is an enormous improvement over the previous pegged rate system that allocated funds administratively. It may produce production bottlenecks for imported raw materials and spare parts, and certainly raises costs to manufacturers. The planned time for obtaining foreign exchange is 3-4 weeks, whereas it has been known to take 6-8 weeks, according to the export assessment. Regular exporters and big companies have developed ways around this obstacle. The auction as an allocation system is fair for new entrants (unlike the old administrative system), but it is still seriously deficient for new entrants and small business in its failure to deliver funds promptly.

c. Lack of Business Infrastructure Group

The chief constraints in the area of business infrastructure are: (1) weak business support services, (2) inefficient state owned enterprises, (3) unclear investment incentives, (4) cumbersome export/import procedures, (5) inadequate and high cost of transportation, and (6) lack of factory space.

(1) Weak Small Business Support Services

The small business assessment revealed that institutional support for small business is woefully lacking. According to the survey, no business association adequately represents their interests, although many private and public sector organizations exist. In the private sector, over 20 organizations provide membership services and representational activities. The scope and quality of these business services depends on purpose, membership interest, size of staff, resources, and leadership. Many organizations are little more than lobbying groups for narrow interests and fail to offer the range of services necessary to attract wide membership. This situation adversely affects small businesses which need special attention for start up, training, and production improvements.

The two strongest organizations are JAMPRO and the Private Sector Organization of Jamaica (PSOJ), the business community's umbrella organization. Ironically, JAMPRO, a public sector agency, has often been more aggressive in promoting sound economic policy to support private enterprise than many private associations. The PSOJ has been a pacesetter in researching, analyzing, and publicizing needed economic reforms, and also has a weekly radio program on economic issues. Other associations include the Jamaica Exporter's Association, Jamaica Manufacturers Association and the Small Businesses Association of Jamaica (SBAJ). The SBAJ, which peaked at more than

1,400 members, as a result of an earlier USAID strengthening grant, has since faded back to only 300; there is some indication that it may be re-emerging in importance. Business associations are also active in the tourism sector, such as the Jamaica Hotel and Tourism Association (JHTA) and, more recently, Tourism Action Plan (TAP).

The same assessment revealed that a strong demand and willingness to pay exists for business services, such as: business counseling, loan referral, project development, technical assistance in production technology and processing, investment opportunity identification, technical assistance in management, business and infrastructure planning, financial planning, and marketing. Some businesses expressed a willingness to pay for these services, while others could contribute to defraying the cost.

(2) Inefficient State Owned Enterprises

The GOJ still owns many enterprises and furnishes many government services which could be privatized. These activities are an inheritance of the past and a severe drain on the budget, resulting in misallocation of human and financial resources which might be better used for other, more critical government operations. While substantial progress has been made in this area there is still much to be done.

(3) Unclear Investment Incentives

Although many policy changes have improved the business climate, an inefficient administrative apparatus remains in place. For example, it takes up to five months for an entrepreneur to complete all the bureaucratic requirements to invest in an export industry even with the assistance of JAMPRO. Part of this delay is the result of unclear investment incentives and wide bureaucratic discretionary power over tax and rebate incentives, factory costs, etc., which require individual negotiations and deal-making.

(4) Cumbersome Export/Import Procedures

Government agencies such as the Customs Office and Port Authority badly need modernization and training. The assessments revealed, for instance, that it may take up to 10 weeks and visits to three agencies to secure necessary approvals and foreign exchange for raw material imports. Negotiating these hurdles requires time and money and detracts from Jamaica's competitive position.

(5) Inadequate Transportation

Transportation problems abound. Domestically, the principal problem appears to be shortages of trucks, because of their high cost (e.g., a small six wheel flat bed truck with a CIF value of US\$40,000 costs US\$63,000 equivalent), age of fleets, lack of spare parts and import restrictions. As a result, breakdowns are frequent, raw material supplies are unreliable, and products cannot get to market. The principal cause appears to be the government's restrictive policy on importation of commercial vehicles. This also has impact on public transportation, which is woefully inadequate and a major

constraint to increased labor productivity. Totally inadequate public transportation due to regulated fares and insufficient buses also causes major hardships to workers, producing untimely arrivals and reducing worker efficiency.

(6) Insufficient Factory Space

The small business assessment revealed that about 60 percent of small businesses are in undersized space. This situation prevents expansion, more efficient production systems, and adversely affects staff working conditions. Most factory space construction is oriented toward larger companies. The GOJ is currently exploring the possibility of constructing industrial parks for small enterprises, but it is unclear whether this proposal would be more efficient and cost effective than providing long term credit to small entrepreneurs.

B. Project Objectives

1. Goal and Purpose

The project goal is to stimulate broad based economic growth in Jamaica, resulting in increased levels of employment and higher real incomes. The project purpose is to increase exports and diversify investment, leading to expanded sources of foreign exchange, diversification of ownership and products, and deeper linkages between exporters and local producers.

2. Project Themes

a. Interdependence Among Constraints

The constraints described above are interdependent and collectively reduce export competitiveness, investment in productive sectors, and prospects for economic adjustment with growth. For example, the business inefficiency problem not only affects the competitiveness of exports in the world market but also affects the supply of raw materials for production. Given the structure of Jamaica's economy, production or "supply side" constraints to export led growth must be attacked vigorously on a wide front. These problems are surmountable if they are dealt with in an integrated fashion which uses both policy dialogue and inputs of training, technical assistance, and credit. This project, through policy dialogue (both directly and as part of the Mission's overall effort) and inputs, will ease the principal constraints to private sector activity and expand exports in areas with multiplier effects on economic growth.

b. Cost Sharing

Cost sharing is a basic principle which runs throughout this project to leverage USAID resources and disabuse the private sector from the idea that foreign assistance is a free good. Cost sharing will be determined on the basis of an organization's ability to pay. For example, the lead firm in the feeder industries activity will contribute to the cost of technical assistance on a sliding scale from 20:80 to 50:50, depending on financial ability.

Private sector support organizations will be required to attain financial self sufficiency over a reasonable time frame. Small businesses and their supporting organizations, on the other hand, will be held initially to less rigorous standards. Of course, upgrading human skills often benefits the individual and the economy even more than the company for which people work at the time of the training or technical assistance, given labor mobility in an expanding economy.

c. Flexibility

This project will be flexible so that it can respond to market demands to reduce constraints which increase exports and diversify investment. The project activities described are expected to be undertaken as presented; however, if one activity is slow in implementation, then USAID will shift funds to other activities which show greater promise in achieving the project purpose. Progress will be monitored by the project management information system and periodic reports from implementing agencies.

C. Project Description

The project will finance a series of activities to reduce constraints to exports and investment. For ease of presentation, the constraints are described in three groups: low productivity, financial market deficiencies, and weak business infrastructure. The chart shows constraint groupings and project activities to reduce these constraints. The chart is necessarily simplified in that project activities will have cross-cutting impact on reducing constraints.

1. Low Productivity Group

To increase productivity, the project will finance activities to reduce four constraints identified in the assessments: (a) business inefficiencies, (b) lack of managers and skilled workers, (c) lack of backward and forward linkages, and (d) unreliable supplies of inputs. Activities build upon previous experience under the TC & TG project or have been successful in other countries.

a. Constraint: Business Inefficiencies

b. Constraint: Lack of Managers and Skilled Workers

This project will finance activities which primarily address the constraints of business inefficiencies and lack of managers and skilled workers.

(1) Technical Assistance and Training Program

This activity will provide technical assistance to improve the operations of promising business enterprises. JAMPRO will be the principal implementing unit for this component, although it is the intention of the project to encourage private sector entities to become involved to the maximum extent possible, and it is expected that, over time, many of JAMPRO's current functions will come to be performed by the private sector. JAMPRO will be

directly responsible for many of the activities undertaken, to be agreed upon by AID through an annual Implementation Plan. In addition to activities implemented by JAMPRO, USAID may implement activities directly with private sector entities, with the concurrence of the Project Coordinating Committee.

To carry out this program, JAMPRO industrial engineers and specialists will visit plants to offer a full range of in-plant technology to firms in priority sub-sectors. USAID has supported a program similar to this under the TC & TG project. JAMPRO is moving towards cost recovery in carrying out such activities. Under TC & TG, USAID financed five consultants who provided technical assistance and training to more than 100 apparel firms, conducted four industry wide annual training courses with from 12 to 20 participants, and trained up to eight

JAMPRO engineers per year to continue these "extension" services to the garment industry. The assessments recommended expanding this program to include other sectors.

In addition to the apparel industry, this project component will focus on furniture, agribusiness, electronics, horticulture, and other export industries to the extent demand warrants. The project will finance an estimated six long term experts, and short term experts as needed. In addition, this activity will finance on-the-job training at U.S. plants for "trainers" (either from JAMPRO or individual companies), together with commodities needed by the technical experts, such as cars, testing equipment, and teaching materials. As part of project implementation, this activity will finance two "program audits" to assess the activity's impact on increasing exports and to make recommendations to improve effectiveness and reduce costs.

(2) Technical Assistance - IESC

This activity will finance continuation of services provided by International Executive Service Corps (IESC) volunteers to assist in small business and export enterprises. IESC, established in 1964 as a non-profit organization, has headquarters in Stamford, CT, and has completed more than 11,000 volunteer projects overseas, some with AID assistance. USAID has funded IESC activities for several years under the TC & TG project.

Based on this positive experience, USAID will provide a grant to IESC to finance, on a cost sharing basis, approximately 40 volunteers over four years. The volunteers will be assigned to work in areas outlined by IESC and approved by AID. The estimated budget is \$300,000.

Constraint

Activity

- | | |
|---|--|
| <p>1. Low Productivity Group</p> <ul style="list-style-type: none">a. Business Inefficienciesb. Lack of Managers and Skilled Workers
c. Lack of Backward and Forward Linkagesd. Unreliable Supplies of Inputs <p>2. Financial Market Deficiencies Group</p> <ul style="list-style-type: none">a. Delays in Accessing Foreign Exchangeb. High Cost of Creditc. Lack of Term Financingd. Lack of Equity Financing
e. Lack of Small Business Credit <p>3. Lack of Business Infrastructure Group</p> <ul style="list-style-type: none">a. Weak Business Support Services
b. Inefficient State Owned Enterprisesc. Unclear Investment Incentivesd. Cumbersome Export/Import Procedurese. Inadequate Transportationf. Lack of Factory Space | <p>Technical Assistance/Training - JAMPRO & Others
Technical Assistance - IESC
Trade Promotion - JAMPRO</p> <p>Feeder Industries
Investment Promotion</p> <p>Policy Studies
Policy Studies
Policy Studies
Optional activities to be undertaken in an amended project, at some future point
Credit - NDF</p> <p>Small Business Development
Improvement of Private Sector Organizations
Improvement of Public Sector Organizations
Privatization Program
Operations Study
Operations Study
Policy Study
Policy Study</p> |
|---|--|

(3) Trade Promotion - JAMPRO

This activity will finance selected aspects of JAMPRO's trade promotion program to improve marketing of Jamaican exports. USAID previously provided extensive funding for JAMPRO trade promotion activities; this project will provide limited funding for those aspects given the higher priority for productivity enhancement. This project will contribute to funding of trade fairs, including Jamaica's regional "Fashion Carnival," and also participation in U.S. trade shows, particularly by officers of new export enterprises.

Expected Results: These activities will increase export competitiveness and diversify product mix. An estimated 30 industrial engineers will be trained and 40 training courses will be conducted for middle management and supervisors.

c. Constraint: Lack of Backward and Forward Linkages

d. Constraint: Unreliable Supplies of Inputs

Two activities will address constraints of lack of backward and forward linkages and also unreliable supplies of inputs. The first activity has been tried in Jamaica with limited success, and the second activity has been tried successfully in other countries.

(1) Feeder Industries

Feeder industries establish forward and backward linkages, improve reliability of supplies of inputs, reduce costs, and generate employment.

Feeder Industries are defined as industries which provide component parts to a separate "host" (or, "lead") firm which processes the components into a final product. Examples are: feeder agricultural products supplied to a host manufacturing concern for processing into a final product and processed items (such as handicraft items produced by small and micro-enterprises) for lead organizations (such as trading companies) which package and sell the product. This concept may also include feeder service enterprises to support host companies.

Some characteristics which set feeder industries apart from other business arrangements are: (1) a contractual relationship usually exists between the feeder industry and a lead business, (2) intermediaries are excluded from the process, (3) lead firms often buy feeder industry products at premium prices, (4) the host firm often provides technical assistance and credit to the feeder industry, and (5) when a foreign host firm works with a feeder industry, it provides technical assistance and a guaranteed export market.

The feeder industry concept is not new and has become more important as international markets become more competitive. It is not feasible for smaller firms to undertake procurement, design, production, marketing, packaging and exporting. While small firms might operate efficiently in one area, they may be very inefficient in other areas.

In Jamaica, the concept has never achieved widespread acceptance. Previous attempts show both failure and success. Jamaica Broilers is an example of the most successful feeder industry investments. This is a classic example where small farmers, under contract, provide birds for processing and wholesaling in exchange for technology, feed, and a guaranteed market. In contrast, an example of a failure is Cornwall Dairy Developments, a diversified agribusiness operation (milk and milk products, juices). This lead company was set up to rely upon small dairy farmers, fruit and vegetable farmers, flavoring manufacturers, and sugar producers. A case study showed that the foreign consultants, who were to provide training at start-up, left too early without fully training management and operators, and Cornwall Dairy was unable to provide technical assistance to the feeder firms. From the outset, the enterprise was plagued with technical problems related to downtime, maintenance, water supply, procurement of raw materials from feeders, quality, productivity, and staffing.

Several factors will have to be taken into account in encouraging the expansion of feeder industries, including: upgrading plant technology of the lead firm, training production engineers to assist feeder firms, providing working capital to finance feeder industry costs, and furnishing technical assistance in marketing. In the furniture industry, for example, experience indicates that lead firms require technical assistance in meeting U.S. production quality standards, in standardizing inputs from smaller firms, in producing samples for market, and in seeking joint venture partners and new markets. Finally, a major problem is the lack of credit for small feeder firms to finance the long lead time between raw materials procurement and sale to the lead firm. Before receiving payment, the feeder firm may have to wait six months (compared to a maximum of 30 days in the U.S.).

This activity will initially focus on developing one new prototype feeder industry relationship, thus building project experience in this area before deciding whether the concept warrants further project involvement. Likely candidates are: garments, furniture, electronics, agribusiness, tourism, and horticulture. USAID will invite proposals from potential host firms for a grant to develop feeder industry relationships. The grant will be awarded on a cost sharing basis (ranging from 20:80 to 50:50 depending upon need) to finance costs of technical assistance, training, and commodities to: improve lead firm operating efficiency and management, develop a product mix of components to be produced by feeder firms, determine needs and costs of upgrading feeder firms to meet quality standards and delivery schedules, determine inputs required by feeder firms, determine types of managers and skilled workers, and develop marketing plans.

Also, this element will provide the National Development Foundation with funds which can be used to complement this activity. A US\$300,000 grant will be made to the non-profit National Development Foundation for loans but not operating costs to firms participating in the feeder industry arrangement for the purchase of raw materials, specialized equipment, and other inputs. Loans to feeder industry firms will be made at NDF's regular interest rates (currently 20 percent except for agricultural loans, which are made at 14 percent as are those of the GOJ). Reflows will be used to replicate similar activities. NDF/J has been operating a similar but smaller feeder industry loan fund from GTZ.

Expected Results: This pilot project will increase the participating firms' export sales 20 percent per year. In addition the following operating results are expected: establishment of a brand image in the U.S.; high volume production with benefits from economies of scale; easing of procurement, storage and shipping problems; increased utilization of plant capacity; specialization to increase efficiency; and upgraded management personnel.

(2) Investment Promotion

A second activity will also reduce constraints involving lack of backward and forward linkages and unreliable supplies of inputs. This activity - investment promotion - includes lessons learned in other country programs.

This activity will finance, on a 50:50 cost-sharing basis, Jamaican company efforts to seek domestic and foreign partners. Eligible items include preparation of an investment prospectus, determination of project feasibility, and trips to seek a foreign joint venture partner if needed. Approval for grants will depend upon potential investors' intent, availability of equity and bank financing, and firmness of markets. This activity will be implemented through JAMPRO. This activity will not only promote investment but will also resolve production constraints in product design, control systems, packaging and marketing.

Expected Results: Approximately 5 new joint ventures will be established.

2. Financial Market Deficiencies Group

To mitigate financial market deficiencies, the project will finance activities to reduce five constraints identified in the assessments: (a) delays in accessing foreign exchange, (b) high cost of credit, (c) lack of term financing, (d) lack of equity financing, and (e) lack of small business credit. Some of these constraints have been the subject of extensive policy dialogue with the government under ESF and other programs over a long period. In these cases, this project will contribute to the policy dialogue already underway and it will provide funds to finance studies and other activities to support this policy dialogue. In other areas, the project will take a more active role to reduce constraints.

a. Constraint: Delays in Accessing Foreign Exchange

b. Constraint: High Cost of Credit

USAID and other donors, particularly the IMF and World Bank, have been conducting policy dialogue with the GOJ over the past several years in regard to foreign exchange and interest rates. These constraints form part of the Mission's policy dialogue efforts with the Government and will continue.

This element will finance at least three policy studies combined with technical advisors and training to support ongoing policy dialogue with the GOJ. Areas of particular interest to reducing constraints are permitting banks and exporters to maintain expatriate accounts for quick access to foreign exchange and, over time, moving to free foreign exchange and interest rates.

c. Constraint: Lack of Term Financing

The assessments identified one area relating to the lack of term financing constraint where change may be possible - the types of security, or collateral, required by banks. Consequently, this activity will finance a study of methods to broaden the scope of security instruments which may be acceptable to banks. This study is to be undertaken in cooperation with the bankers' association.

d. Constraint: Lack of Equity Financing (Possible Activities for a Project Amendment)

Stock exchange activities are expanding as a result of new issues by private companies and divestments by the government. The stock exchange has been visited by U.S. and other experts, who have offered advice and, in some cases, moderate assistance in modernization. Also, the stock exchange has applied for participation in a World Bank program to furnish a computer and technical assistance to develop and implement new systems.

If the GOJ is able to broaden participation of new brokers in the stock market, then an element will be added to this Project through an amended Authorization to finance activities to strengthen the stock market so that it can become a dynamic force in relieving this constraint. These two possible activities are:

(1) Stock Exchange Modernization

This activity would finance short term technical assistance, training, and commodities to modernize the stock exchange. It would assist in: modernizing transfer procedures and rules, automating the transfer process and the floor process, developing financial institutions to act as transfer agents by sub-contracting with the stock exchange, expanding the number and types of instruments traded, developing a public relations program to educate the public on the benefits of the exchange as a vehicle to raise equity capital, and opening the exchange to foreign investment.

(2) Establishment of SEC-type Body

The project may also finance technical assistance, salaries of professionals, training, and commodities of a new securities regulatory commission. Establishment of such an agency will require GOJ action, either as a law or regulation, which will precede commitment of funds. This Commission will issue regulations and supervise the self-regulating stock exchange. IESC financial market experts argued that it is important at the outset that a full time professional staff be hired with pay scales competitive with the best private financial institutions. They further argued that the Commission would inevitably become a training ground for private financial institutions and that this was not undesirable. Those trained by the Commission will understand the system, respect the regulatory needs and, therefore, will contribute to the operation of the system from positions in the private sector.

Projected Results: Accomplishments expected if these activities were funded would be opening of the stock market to wider participation by brokers and buyers. Other accomplishments would include: establishment of an SEC-like body, at least four new instruments traded (such as Treasury bills and government debt), new companies' stock traded on the exchange, and a modern stock exchange serving the Caribbean.

e. Constraint: Lack of Small Business Credit

Lack of access to credit constrains establishment and expansion of small business, thereby limiting growth of exports, production, and new jobs.

The National Development Foundation of Jamaica (NDF/J) provides credit and technical assistance to small business. Current loan eligibility criteria require that loans not exceed J\$500,000. NDF/J is beginning to fill the massive demand for credit by small enterprises. An analysis of NDF/J loan applications showed that its demand for loans is nine times greater than its supply of funds.

The activity will provide a \$600,000 grant to the non-profit NDF/J so that it can extend loans to small businesses. Reflows from repayment of loans will be used to extend new loans for the same purpose.

3. Lack of Business Infrastructure Group

To expand availability of small business infrastructure, the project will address constraints of: (a) weak business support services, (b) inefficient state owned enterprises, (c) unclear investment incentives, (d) cumbersome export and import procedures, (e) inadequate and high cost transportation, and (f) insufficient factory space. Some activities build upon previous USAID experience, and others are new initiatives.

a. Constraint: Weak Business Support Services

To improve selected business support services, three activities will be given limited funding: small business development, improvements in private sector organizations, and improvements in public sector organizations. Based on the success and impact of the initial efforts, the Project may be amended to include further funding for these efforts.

(1) Small Business Development

This activity will help small business development organizations to expand and improve technical assistance, particularly for: (1) providing technical assistance and training, (2) providing information on sales and procurement opportunities, (3) promoting and packaging loan applications to commercial and development banks, credit unions and others, (4) conducting studies of small business incentives, (5) developing employee benefit schemes such as insurance and pension plans, (6) coordinating bulk purchases and sales, and (7) providing trade promotion and marketing services.

This element will finance part of the costs of expanding services available to small business in response to proposals from small business organizations. Candidate recipient organizations include JAMPRO, where the GOJ is considering expansion of small business services, and other organizations, such as the Small Businesses Association of Jamaica, credit unions, and transport owners and other industry-specific associations. Each organization must have a business plan showing how it will achieve financial self-sufficiency within a reasonable period and is expected to charge fees for services. Proposals will be accepted on a cost sharing basis, and JAMPRO will administer sub-grants to private sector organizations. The project will finance costs of business plans, technical assistance to organizations, training, commodities, and start-up operating costs.

(2) Improvement of Private Sector Organizations

This activity will improve the institutional framework for trade and investment. This activity is directed to general business organizations, not exclusively small business organizations. It will assist private sector organizations expand the business constituency for policy reforms and improve communications between the public and private sectors.

This element will finance development of a business plan to achieve self-sufficiency, short term technical assistance, studies, commodities, training, and public relations programs. Illustrative eligible activities include: economic policy studies and dissemination to private sector leaders, government officials, and news media; creation or expansion of services by private sector associations (e.g. training and seminars in business planning, accounting, marketing, etc.); collection, analysis, and dissemination of information on investment and exports (sector surveys and market information); and training in membership development and services. The JAMPRO-USAID committee will review proposals, avoid duplication of efforts, and insure that synergy exists among approved proposals on a cost sharing basis.

Two potential proposals were identified in the assessments:

- o A request from the PSOJ to expand its active program of economic policy studies. Funds are being sought to defray the cost of a senior economist, to research and disseminate studies of the foreign exchange regime, investment incentives, and capital markets legislation, and to expand its communications department. Funds might also be sought for staff training, particularly in membership services.

- o Tourism Action Plan (TAP) is seeking to expand membership services, outreach activities, infrastructure planning and investment, and ways to integrate the tourist industry into the domestic economy.

Expected Results: Expansion of the membership bases of private sector organizations together with an increase in their ability to represent broader interests in the policy process.

(3) Improvement of Public Sector Organizations

This activity is similar to the private sector organization activity described above except that it will focus on relieving public sector constraints to expanded business operations.

The project will finance costs of studies, long and short term technical assistance, training and commodities. Public sector agency proposals will be screened for their potential to ease administrative bottlenecks to investment and exports (including policy reform) and willingness to work with JAMPRO to resolve specific problems. Potential agencies for priority attention are customs, to streamline export/import procedures and possibly create a one-stop clearing house for exports and imports. Other constraints identified in the assessments were unclear investment incentives (JAMPRO might more clearly define the ground rules for awarding investment incentives), insufficient factory space and inadequate transportation.

Expected Results: Streamlined operations of government agencies important to private sector activities.

b. Constraint: Inefficient State Owned Enterprises

The GOJ has successfully carried out a wide range of privatization efforts, including divesting of government owned assets, contracting of government services, leasing of government owned property, and sale of minority positions. This privatization thrust has reduced the role of the public sector in the economy and the government budget deficit. Continuation of privatization is one of many interwoven threads crucial to successful implementation of macroeconomic policy to strengthen the private sector and lower factor costs. USAID has firmly supported GOJ efforts through policy dialogue and technical assistance.

The GOJ has adopted a pragmatic and informal approach to privatization which has worked well and is cost effective. Examples of privatization achievements since 1985 are: lease and sale of 57,000 acres of agricultural land on 36 properties (partly assisted by USAID's Agricultural Industry Development and Crop Diversification/Irrigation projects); sale of 15 small state owned enterprises; privatization of government bus operations in Kingston and Montego Bay; privatization of janitorial and catering services in three Kingston hospitals (assisted by the Health Management Improvement project); divestment of four large public enterprises (Seprod, a manufacturer of consumer products and animal feeds; the National Commercial Bank; the Caribbean Cement Company; and Telecommunications of Jamaica), and sale of four hotels with other sales pending.

This activity will support GOJ expansion of previously successful privatization efforts. The GOJ plans to expand its divestment activities through its Divestment Unit within the NIBJ. This Unit will:

- o Develop privatization policy;
- o Continually review public sector holdings for divestment;

- o Produce an annual divestment list with conditions for sale; and
- o Sell government assets.

The Divestment Unit will develop five year plans to be reviewed annually to assure continuity of the process. An aggressive divestment program will reduce the government budget and stimulate capital markets. In addition, the GOJ is privatizing many government operations performed by ministries, such as leasing, contracting of services, etc. These privatizations are undertaken directly by ministries, and this activity will make available funds for professional services required to carry out privatizations. The activity will support divestment activities of NIBJ including Jamaican professional salaries; training; and consultant services for asset evaluation, preparation of prospectuses and share offerings, special studies, marketing of assets to be divested, etc. In addition, professional services for other privatizations will be financed for ministries which want to

lease, let contracts, etc. USAID's contribution will equal no more than 50 percent of total program costs, and the GOJ will finance the remaining 50 percent.

Expected Results: In addition to privatizing at least 15 government services, a minimum of 20 government owned properties will be divested.

- c. Constraint: Unclear Investment Incentives
- d. Constraint: Cumbersome Export/Import Procedures
- e. Constraint: Inadequate Transportation
- f. Constraint: Lack of Factory Space

The assessments identified these four constraints as hindering business development. The first two constraints will be addressed by the activity to improve public sector organizations, described above. The other two constraints will be addressed through special studies as part of USAID's ongoing policy dialogue. The last two constraints are also partly addressed, respectively, by a PL480 Title I self-help measure study of harbor facilities and proposed Inner Kingston Phase II provision of factory space.

Expected Results: Publication of several policy and operating studies and dissemination to a wide audience of policy makers and businesspersons.

II. Cost Estimate and Financial Plan

The total cost of this project is estimated at US\$9.8 million, of which USAID will contribute US\$7.0 million. Jamaican entities are expected to contribute at least US\$2.7 equivalent. AID's first year obligation in FY 1990 is expected to be US\$2.3 million. Contingency has been estimated at 4 percent of project costs.

A. Summary Cost Estimate and Financial Plan

Table I is a summary of the cost estimates and financial plan for the total project. Jamaican entities are contributing at least 25 percent of project costs. The technical analyses for the project revealed that the most serious constraints to increased exports and investment are business inefficiencies (mostly production related), unreliable supplies, deficient financial markets and lack of business support services. Consequently, USAID resources will finance the costs of technical expertise and other related inputs to resolve these constraints as follows: US\$2.5 million for business inefficiencies, US\$1.0 million for unreliable supplies, US\$0.1 million for deficient financial markets, and US\$2.2 million for lack of business support services. Credit, also identified as a constraint for small businesses will be eased by providing grants to NDF/J of US\$0.6 million. US\$0.6 million is budgetted for contingency, evaluation, audits, and monitoring. Table I also shows host country and private sector contribution at US\$2.8 million. For more detailed cost estimates, please refer to Annex E.

B. Costing of Project Components

Table II shows costing of project componets by type of input. The project will finance both long term and short term technical assistance at approximately US\$3.6 million, credit at US\$0.9 million, commodities at US\$0.4 million, training at US\$0.4 million, and grants excluding credit of US\$1.2 million. Program evaluations, monitoring audits and contingency are estimated at US\$0.5 million.

C. Projection of Expenditures by Fiscal Year

Table III shows estimated expenditures by component by year. Expenditures by fiscal year are estimated at US\$1.3 million in FY 90, US\$2.0 million in FY 91, US\$1.9 million in FY 92, US\$1.7 million in FY 93, and US\$0.1 million in FY 94.

TABLE I - SUMMARY COST ESTIMATE AND FINANCIAL PLAN
(US\$000)

SOURCE	A.I.D.		HOST COUNTRY LC AND PRIVATE SECTOR	TOTAL
	FX	LC		
I.A. <u>Low Productivity Group</u>				
<u>Business Inefficiencies/Lack of</u>				
<u>Skilled Managers/Workers</u>				
Technical Assistance	1,860.0		350.0	2,210.0
Training	180.0		50.0	230.0
Commodities	58.0		0	58.0
Program Audits	80.0		0	80.0
Trade Promotion	<u>340.0</u>		<u>350.0</u>	<u>690.0</u>
Sub-Total	2,518.0		750.0	3,268.0
I.B. <u>Low Productivity Group</u>				
<u>Lack of Linkages/Unreliable Supplies</u>				
Technical Assistance	330.0		480.0	810.0
Training	22.5		20.0	42.5
Commodities	87.0		0	87.0
Credit		300.0	300	600.0
Investment Promotion Program	<u>220.5</u>		<u>200.0</u>	<u>420.5</u>
Sub-Total	660.0	300.0	1,000.0	1,960.0
II. <u>Financial Market Deficiencies Group</u>				
Studies	80.0		30.0	110.0
Credit		<u>600.0</u>	<u>100.0</u>	<u>700.0</u>
Sub-Total	80.0	600.0	130.0	810.0
III. <u>Lack of Business Support Services</u>				
Technical Assistance	1,030.0	680.0	570.0	2,280.0
Training	212.0		50.0	262.0
Commodities	205.0		0	205.0
Marketing		<u>100.0</u>	<u>50.0</u>	<u>150.0</u>
Sub-Total	1,447.0	780.0	670.0	2,897.0
Project Implementation (TA and Commodities)	180.0		50.0	230.0
Evaluation and Audit	75.0	50.0	50.0	175.0
Contingency/Inflation	<u>310.0</u>		<u>100.0</u>	<u>410.0</u>
Sub-Total	565.0	50.0	200.0	815.0
GRAND TOTAL	5,270.0	1,730.0	2,750.0	9,750.0

TABLE II - COSTING OF PROJECT COMPONENTS BY TYPE OF INPUT
(US\$000)

PROJECT COMPONENTS	INPUTS							TOTAL	
	LONG TERM TA	SHORT TERM TA	CREDIT	COMMOD- ITIES	TRAINING	GRANTS	AUDITS/ EVALUATIONS		CONTINGENCY INFLATION
I.A. Low Productivity Group									
<u>Business Inefficiencies/Lack of Skilled Managers/Workers</u>									
Garment Industry	480.0								480.0
Agribusiness Industry	660.0								660.0
Furniture Industry	300.0								300.0
Other Industries		120.0							120.0
Training of Trainers				58.0	180.0				238.0
In-plant support							80.0		80.0
Program Audit									300.0
IESC		300.0							300.0
Trade Promotion Program						340.0			340.0
Sub-Total	1,440.0	420.0		58.0	180.0	340.0	80.0		2,518.0
I.B. Low Productivity Group									
<u>Lack of Linkages/Unreliable Supplies</u>									
Feeder Industries	180.0	150.0		87.0	22.5				439.5
NDF - feeder companies			300.0						300.0
Investment Promotion Prog.						220.5			220.5
Sub-Total	180.0	150.0	300.0	87.0	22.5	220.5			960.0
II. Financial Market Deficiencies Group									
<u>Policy Studies</u>		80.0							80.0
NDF (access for small bus.)			600.0						600.0
Sub-Total		80.0	600.0						680.0
III. Lack of Business Support Services									
<u>Small Business Organization</u>	120.0	130.0		50.0	75.0	310.0			685.0
Improve Private Sec. Org.		240.0		75.0	50.0	210.0			575.0
Public/Private Relations Prog.		80.0							80.0
Improve Public Sec. Org.	120.0	180.0		80.0	75.0				455.0
Policy Studies		40.0							40.0
Privatization/Divest.	300.0				12.0	80.0			392.0
Sub-Total	540.0	670.0		205.0	212.0	600.0			2,227.0
Project Implementation	120.0			60.0					180.0
Evaluation and Audit							125.0		125.0
Contingency/Inflation								310.0	310.0
Sub-Total	120.0			60.0			125.0	310.0	615.0
GRAND TOTAL	2,280.0	1,320.0	900.0	410	414.5	1,160.5	205.0	310.0	7,000.0

TABLE III - PROJECTED EXPENDITURES BY FISCAL YEAR
(US\$000)

	FY 90	FY 91	FY 92	FY 93	FY 94	TOTAL
I.A. Low Productivity Group						
<u>Business Inefficiencies/Lack of Skilled Managers/Workers</u>						
Technical Assistance	240.0	525.0	550.0	520.0		1,835.0
Training	56.0	41.0	41.0	43.0		182.0
Commodities	14.5	14.5	14.5	14.5		58.0
Program Audits			40.0	40.0		80.0
Trade Promotion	40.0	100.0	100.0	100.0		340.0
Sub-Total	<u>350.5</u>	<u>680.5</u>	<u>746.5</u>	<u>717.5</u>		<u>2,495.0</u>
I.B. Low Productivity Group						
<u>Lack of Linkages/Unreliable Supplies</u>						
Technical Assistance	120.0	100.0	65.0	45.0		330.0
Training		7.5	7.5	7.5		22.5
Commodities		29.0	29.0	29.0		87.0
Credit	50.0	100.0	150.0			300.0
Investment Promotion	4.5	73.5	73.5	69.0		220.5
Sub-Total	<u>174.5</u>	<u>310.0</u>	<u>325.0</u>	<u>150.5</u>		<u>960.0</u>
II. Financial Market Deficiencies Group						
Studies	80.0					80.0
Credit	300.0	200.0	100.0			600.0
Sub-Total	<u>380.0</u>	<u>200.0</u>	<u>100.0</u>			<u>680.0</u>
III. Lack of Business Support Services						
Technical Assistance	240.0	581.0	486.0	403.0		1,710.0
Training	6.0	81.0	63.0	62.0		212.0
Commodities	25.0	70.0	95.0	15.0		205.0
Marketing		50.0	50.0			100.0
Sub-Total	<u>271.0</u>	<u>782.0</u>	<u>694.0</u>	<u>480.0</u>		<u>2,227.0</u>
Project Implementation	90.0	60.0	30.0			180.0
Evaluation and Audit		25.0		50.0	50.0	125.0
Contingency/Inflation				310.0		310.0
Sub-Total	<u>90.0</u>	<u>85.0</u>	<u>30.0</u>	<u>360.0</u>	<u>50.0</u>	<u>615.0</u>
GRAND TOTAL	1,266.0	2,117.5	1,895.5	1,731.0	50.0	7,000.0

D. Methods of Implementation & Financing

Table IV shows the methods of implementation and financing for the project and all are in accordance with AID's preferred methods.

The two major entities implementing the project will be JAMPRO and NDF/J. Both of these entities have recently had their internal control, accounting, reporting and host country contracting capabilities reviewed by a local chartered accounting firm. These reviews were made due to their involvement with the Hurricane relief activities. NDF participated in the two hurricane relief projects and while there were administrative weaknesses identified under the first project, there performance under the second has been adequate. JAMPRO is participating currently under the second hurricane project and has had their systems under review with no major weaknesses identified to date. In addition, the Mission is in the final stage of signing a work order with a local chartered accounting firm to conduct a review of their compliance, accounting and reporting, and contracting in implementing the Technical Consultation and Training Grant. The firm will review their local and offshore performance. Funds under this project will not be advance to JAMPRO until the review is completed and all findings addressed by JAMPRO management.

The project will have other sub-grantees and when identified, the Controller's staff or local accounting firm will be contracted to conduct a review of their capabilities to manage and account prior to releasing of funds. The project has budgeted adequate funds to cover all anticipated audit requirements.

TABLE IV

**METHODS OF IMPLEMENTATION & FINANCING
(US\$000)**

<u>INPUT</u>	<u>METHOD OF IMPLEMENTATION</u>	<u>FINANCING</u>	<u>AMOUNT</u>
Technical Assistance:			
Long and Short Term TA	HC Contract and AID Direct Contracts	Advance/Reimb. Direct Payment	2,280.0 1,320.0
Grant to IESC for TA	AID Direct Contract	Advance/Reimb.	300.0
Training	HC Contract	Advance/Reimb.	414.5
Commodities	HC Contract	Advance/Reimb.	410.0
Credit	AID Grant	Advance/Reimb.	900.0
Other Grants	AID Direct or HC Contract	Advance/Reimb. (Direct Payment if grant is made to a profit-making institution)	680.5
Program Audits	AID Direct Contracts	Direct Payment	80.0
Evaluation & Audit	AID Direct Contract	Direct Payment	125.0
Project Implementation	AID Direct Contract	Direct Payment	180.0
Contingency/Inflation			<u>310.0</u>
	TOTAL		<u>7,000.0</u>

III. Implementation and Monitoring Plan

A. Implementing Organizations

The Project will be implemented principally with the following Organizations: JAMPRO, NDF/J, and IESC. Of these, JAMPRO is the overall project implementation and NDF/J is the main implementing sub-grantee. In addition to these principal implementing units, many other organizations will participate as grantees or sub-grantees. These will include public and private sector organizations, as well as private sector firms, selected by AID through open competitions, either formal or informal.

The project design team considered a number of Jamaican organizations to participate in the implementation of the project. JAMPRO, IESC, NDF/J and the PIOJ were selected as the most appropriate of these. Both JAMPRO and NDF/J have recently had their internal control, accounting, reporting and host country contracting capabilities reviewed by a local chartered accounting firm. The most recent reviews, made in relation to these two entities' involvement in Hurricane Gilbert relief activities, disclosed no major weaknesses. The audit of NDF/J loan activities under the Emergency Rehabilitation Project did disclose administrative weaknesses in accounting and reporting on loan activities, but these problems have been addressed and NDF/J is strengthening its administration.

A brief description of JAMPRO and NDF/J is shown below, with more detail provided in the Institutional Analysis Section. A financial analysis of NDF/J credit and technical services is included in the Financial analysis section of this paper. PIOJ's role in the Project is that of a counterpart agency in suggesting and evaluating policy study proposals.

1. JAMPRO

JAMPRO was selected as the main implementing agency for the technical assistance, training and other non-financial project activities because of its depth of experience in dealing with exports and promoting investments in Jamaica. In addition, no other organization--private or public--could come close to being able to play the type of role in the development and implementation of policies affecting exports and investments in Jamaica.

JAMPRO is the government of Jamaica's economic development agency. It has been created out of the merger of the Jamaica National Investment Promotion Limited (JNIP), the Jamaica Industrial Development Corporation (JIDC) and the Jamaica National Export Corporation (JNEC). Combining the services of all three, JAMPRO is responsible for the development and implementation of programs to encourage investment, provide training, modernize industries, and stimulate export trade for Jamaica.

2. The National Development Foundation of Jamaica (NDF/J)

The NDF/J was established on November 16, 1981, as a not-for-profit company under Section 20 of the Companies Act of Jamaica. The main purpose of the NDF/J is to encourage and promote the development of the private small business sector of Jamaica. Its Goals are to:

- assist in the growth and development of small businesses,
- generate nation-wide employment opportunities, and
- provide credit to persons engaged in small businesses in order to enable them to improve their purchasing and operating capacities.

The Foundation makes loans of up to J\$500,000 to individuals and groups. Loans of up to J\$50,000 are handled through its first window operations, while the second window serves clients with greater demand. It is estimated that small business projects supported by NDF/J have generated in excess of 6,400 jobs.

3. IESC

IESC was selected to participate in the project on the basis of its demonstrated capability and effective service delivery. IESC is represented in Jamaica by a Managing Director who is a retired senior U.S. executive, Jamaican professional and 2 secretaries. Grants from USAID/Jamaica to IESC during calendar years 1988 and 1989 have totalled US\$185,000.

4. PIOJ

The Planning Institute of Jamaica was selected to participate in the project by virtue of its role as the GOJ policy and planning coordination unit. EDIP will work with PIOJ to plan and coordinate policy studies and policy dialogue efforts. USAID has a good working relationship with the PIOJ, and implements several projects and sub-projects with them.

B. Project Implementation Arrangements with Participating Institutions: JAMPRO, NDF/J, and IESC

1. Arrangements with JAMPRO

USAID/Jamaica will enter into a Grant Agreement with the GOJ/Ministry of Finance, which will designate JAMPRO as its authorized representative. JAMPRO will directly implement only certain elements of the project, with NDF/J, IESC and other agencies implementing portions of project activities.

JAMPRO will be directly responsible for implementing the following activities:

- (1) Technical assistance and training to address problems of low productivity tracing back to business inefficiencies and a lack of managers and skilled workers;
- (2) Trade promotion activities to improve the marketing of Jamaican exports;
- (3) Investment promotion efforts;
- (4) Improvement of small business, private and public sector organizations; and

(5) Feeder industry support activities (with the assistance of NDF/J).

JAMPRO will be responsible for submitting an annual Implementation Plan to earmark funds for those activities it proposes to implement, within the categories listed above. This will not exhaust the funding available for those activities. Funds not earmarked for JAMPRO will be directed towards other qualified participating entities. USAID will be directly responsible for overseeing the implementation of these additional activities, and will seek the support and guidance of the Project Coordinating Committee (discussed below) in allocating resources to them.

In order to obtain technical assistance, JAMPRO, in close coordination with the USAID/J, will enter into host country contracts with consultants following AID regulations. Training activities will be conducted at factory sites in Jamaica and the U.S.

To facilitate management, JAMPRO will utilize the Project Management Unit (PMU) established under TC&TG Project and composed of three professional JAMPRO employees. This PMU will oversee the day-to-day implementation of JAMPRO's activities, which will include preparation of detailed scopes of work and contracting of the technicians who will assist participating Jamaican firms. The contracts with both long term and short term technicians will be prepared by JAMPRO personnel who have had extensive experience in drawing and managing such contracts. As appropriate, the long term consultants will assist the PMU in preparing scopes of work for the short term experts. In addition, the PMU will be the main link on project implementation matters between the USAID/Jamaica Project Officer and JAMPRO management. USAID may finance technical assistance to assist the PMU carry out its monitoring responsibilities.

The Agreement with the GOJ will also include funding for project commodities, training activities and studies, as detailed in Cost Estimates and Financial Plan, Part VI.

2. Arrangements with NDF/J

As part of the Project, and with the concurrence of the JAMPRO, USAID/J will earmark funds and enter into a Grant Agreement with NDF/J following Handbook 13 procedures to implement the small business credit portion of the project. NDF/J will maintain a separate account for the AID-provided funds, which will be used for loans meeting the eligibility criteria described earlier in the paper.

3. Arrangements with the IESC

USAID/Jamaica will earmark funds and enter into a Grant Agreement with IESC to provide US\$300,000 in grant funding to continue IESC activities during the period 1991-1992. IESC will prepare an annual workplan laying out the guidelines of how they will use these resources, with guidance on priority sectors provided by the PCC. These priority areas will include: small businesses, businesses entering production for export market, female-owned

businesses, and those which would stimulate growth and employment in rural areas. All assistance will be provided to firms and organizations on a cost sharing basis, with the recipient, USAID, and IESC sharing the costs of volunteers. The recipient's contribution will be determined by IESC on the basis of its ability to pay and expected benefits. IESC will meet on a monthly basis with the Project Manager and/or PCC to report on its progress.

C. Project Management and Coordination

The project will be managed by the Private Enterprise Division of the USAID Economic and Private Enterprise Office, which will assign a Project Manager to coordinate day-to-day implementation activities. Technical assistance to support the Mission's policy dialogue agenda development may be included. As part of the project management and implementation process and in addition to the PMU in JAMPRO, JAMPRO and USAID will establish a Joint Project Coordinating Committee (PCC) composed of the USAID Project Manager, the locally hired Project Coordinator assigned to the JAMPRO PMU, the overall JAMPRO Project Officer, and a private sector representative having a broad view of Jamaica's export and investment situation. The PCC will enlist, on a case by case basis, the participation of other USAID/J offices and project consultants to assist in addressing specific issues requiring expert assistance. A primary responsibility of the PCC will be to review, approve and/or modify, as appropriate the yearly workplans to be prepared by the PMU. In addition, the PCC will review specific feeder industry proposals against established criteria and modify and interpret such criteria to assure consistency with the attainment of the project purpose. In short, this Committee will assure coordination of the activities under the various project components, decide project priorities, allocate resources, recommend which firms should be referred to NDF/J for financing needs and which ones to the IESC for specialized assistance, determine sub-grantees, review proposed activities for environmental soundness, and provide overall project oversight.

The PCC will meet as often as necessary to review and approve the periodic work plans prepared by the PMU. In addition, the PCC will ensure compliance with Lautenberg/PD No. 71, environmental soundness, and other AID requirements. Should there be a finding of potential adverse environmental consequences, mitigation measures, full consideration and resolution of tradeoffs will become conditions for approval.

The following list of actions outlines events from shortly after the anticipated date of USAID/Jamaica approval of the Project Paper in March 1990. A detailed workplan will be prepared by the PMU, in concert with the USAID Project Officer and project consultants.

<u>TARGET DATE</u>	<u>RESPONSIBILITY</u>	<u>ACTION</u>
March 1990	USAID, GOJ	Sign Project Agreement.
April 1990	USAID, JAMPRO	Establish Project Coordination Committee (PCC).
May 1990	USAID, JAMPRO, NDF/J, IESC	Negotiate and sign Grants, Cooperative Agreements and other documents specifying the commitments and responsibilities of each party.
July 1990 ongoing	USAID, JAMPRO	Bid and sign Host Country Contracts for technical assistance.
Sept. 1990 ongoing	Contractors	Initiate technical assistance activities.
July 1990	NDF/J	Initiate credit activities.
Oct. 1990	Contractor, USAID, JAMPRO	Develop work plans and schedules for technical assistance activities to exporting firms.
As needed	JAMPRO, PMU USAID	Plan and procure commodities for the program.
March 1993	All Parties and Consultants	Project Evaluation
March 1994	PACD	

D. Evaluation, Audits, and Monitoring Plan

1. Evaluations and Audits

The project will be evaluated towards the end of the third year of implementation. This evaluation will look at both process and impact, and will set the stage for any further work to be done in the sector.

The project will include an ongoing data collection and monitoring program, an essential prerequisite for effective evaluations. The program is discussed in detail in Section 2 below.

Specific concerns to be addressed by the evaluation will be determined by the Project Manager, technical assistance team, and the Mission Evaluation

Officer, after interviews with the project's key information users. In general, the evaluation will assess the following and make recommendations as needed:

- o Progress towards accomplishment of outputs and purpose. (to be viewed in relation to elimination of constraints)
- o Effectiveness and relevance of project component implementation:
- o (1) Role of JAMPRO; (2) Role of NDF/J; (3) The credit activity; (4) Usefulness of the studies.
- o Progress towards sustaining project activities after project completion.

Two internal program audits are planned to assess the effectiveness of the technical assistance provided to firms and organizations. They will be short term in nature, and be used to inform the PCC and USAID on the results of the TA and provide guidance for future TA programming.

The program audits will have a broader concern than a typical financial audit. They will look at cost effectiveness and efficiency in utilization of resources to achieve specific program objectives. They may also look at alternative approaches to achieving a specific objective. The program audits will complement the management information system and evaluations and will provide greater justifications for modifications or possible termination of a selected activity. Program audits will be initiated on an as needed basis under the direction of the project management committee.

Funds have been budgeted for non-federal audits and/or payment verification type reviews by local chartered accounting firms during the life of the project. These will be contracted to local auditing firms. The first audit may take place during the second half of the second year of the project. The second audit will most likely be performed during the third year.

2. The Project Monitoring Plan

The Project Monitoring Plan is designed to ensure the timely generation of performance data to inform decision-makers and evaluators, and to document Project impact. It will serve as an early warning system to alert Project management of any problems that need to be addressed.

The monitoring plan is designed as part of the Project's administrative structure. This will not only increase the efficiency of data collection and monitoring, but will also assist in building counterpart capacity in data gathering and analysis to improve project planning and implementation.

The final design may require the assistance of outside expertise to refine key indicators, and develop reporting mechanisms and data collection plans for the overall project. This assistance is available from AID Washington or through several IQC's already competed.

A. Management of the Monitoring Function

The project monitoring function will be developed and administered by the PMU, in concert and under the guidance of the USAID Project Manager and the PCC. The PMU will design monitoring instruments, ensure the collection of relevant information, train staff in participating organizations in the monitoring process, supervise the implementation of the monitoring system in all entities, and prepare periodic reports that consolidate and analyze monitoring information. The PMU will coordinate early in the project with all important parties, including the USAID direct hire project manager and appropriate people in counterpart institutions, in order to define information needs and determine collection methods.

Implementing the project monitoring system will be the responsibility of the individual institutions engaged in the project: JAMPRO, IESC, NDF/J and the PIOJ. These institutions will be responsible for the ongoing collection and processing of information. USAID will receive all the data and maintain the system for the project as a whole.

B. Design and Development

The PMU will work with the USAID Project Manager and consultants to design the monitoring system. They will develop the system as follows:

1. Identify priority information users and their needs.
2. Clarify (explicitly) Project goals, purposes, inputs and outputs.
3. Identify a) key variables or indicators that will be tracked and b) data sources and collection methods that will be used.
4. Clarify counterpart support and involvement.
5. Develop feedback procedures, describing the flow of information from data sources to managers, including data processing and analysis requirements.

Implementation of the system will be decentralized among the participating institutions, while overall management and analysis will be centralized in the PMU, in concert with the USAID Project Manager. Support for automation of the system may be provided under the project, if warranted.

C. Data Requirements

The monitoring system will require regular and systematic data collection on a series of key indicators for the project. These will be further defined early in the project during the design of the monitoring system. Gender-disaggregated data will be required. The following list is illustrative of the types of information which will be required, but is not comprehensive.

The PMU

- o Baseline information on potential and current exporters collected through interviews and surveys (e.g. products exported, volume of exports, where exported, major problems and constraints to exporting).
- o Evaluation and statistics for the training activities. All trainees will evaluate the training sessions and the trainers.

NDF/J

Internal:

- o Number and amount of loans and grants
- o Number and amount of loans outstanding
- o Delinquency
- o Net margin; gross margin
- o Current value of export credit fund
- o Financial statements

NDF/J

Client Information:

- o Identification data (name, address, type of business, etc.)
- o Assets
- o Income and expenses (export specific, if possible)
- o Expenditures on intermediate goods imported for export purposes
- o Export revenues
- o Number of employees

JAMPRO

- o Market information system based on client contacts/inquires (e.g. pricing information, potential buyers, market studies, documentation, transport, etc.)
- o Value of non-traditional and traditional export earnings by product
- o Value of exports by firm

IESC

- o Cost sharing amounts
- o Characteristics of clients

D. Reports

The PMU will produce quarterly monitoring reports for those activities it manages and consolidate complete sets of current Project data. The reports will include analyses of key data, sum up critical findings in the context of goals and purposes, and identify recommendations for action.

V. Summary of Analyses

Summaries of project analyses follow.

A. Technical Analyses

Four assessments identified constraints to private sector productivity and developed cross-cutting solutions to mitigating constraints in an integrated approach. This project links activities across a range of constraints.

1. Small Business Environment

The Small Business Assessment indicates that small businesses are highly concentrated in labor intensive, final consumer oriented products and services, such as agriculture, light manufacturing, construction of low income housing, repairs and maintenance, personal care, tourist attraction, urban bus services, fast food, entertainment and professional services. These small businesses represent 26 percent of Jamaica's GDP. The services sector, however, continues to capture the largest percentage of GDP at 70 percent of this amount.

On average, small businesses employ about 15 people in urban areas and seven in rural areas. Almost 60 percent of urban firms are legally registered as limited liability companies, while their rural counterparts tend to be informal operations, with about 49 percent legally registered. Agriculture and manufacturing companies are the oldest companies, averaging 11 years, with tourism and services sectors being the newest at three to four years and showing the brightest future.

Investment costs for small businesses are prohibitive, ranging from J\$271,000 to J\$742,000, excluding real estate. High investment costs are driven primarily by inflation and the high cost of imported intermediary materials and component parts characteristic of most manufacturing industries. This accounts for two new structural trends in the small business sector: (1) tendency of new entrepreneurs to invest in the low technology, less capital intensive services sector and (2) expansion of existing businesses rather than establishment of new enterprises because of attractive debt-equity ratios of old businesses.

The most notable feature of small businesses, however, is gender composition. Women account for over 48 percent of principals in small businesses (but do not necessarily take an active role), while they account for only 40 percent of the employed work force. Many small businesses are dominated by women, i.e. garment manufacturing, personal care services, and hospitality. Women will be major beneficiaries as owners or employees, of project activities to assist small businesses. Since many of these women head households (40 percent of all households are headed by women) benefits accrue also to their children (about four per woman) and other extended family members.

Generally, small businesses lack the resources and technology to ensure the greatest productivity. Major constraints to small business development include: unavailability of credit and high collateral requirements, high interest rates, low productivity, obsolete and antiquated plant and equipment, shortage of trained managers and skilled labor, costs of transportation, deteriorating infrastructure, and government red tape. The conclusions and recommendations of the Small Business Assessment clearly identified several areas to assist small businesses compete domestically and internationally. Those areas include policy dialogue to remove discriminatory policies and red

tape, institutional support for small business organizations and government agencies, technical assistance to increase productivity, and training to enhance skills.

2. Feeder Industries

The Feeder Industries Assessment was the most difficult to undertake for two reasons. First, the concept was not immediately recognized by many businesses already participating in feeder relationships. Second, there were no previous studies of feeder industries; therefore, the consulting firm had to develop the research methodology. The assessment indicates the importance of an integrated approach to reducing constraints to business development.

Traditionally, agriculture has been the dominant sector in feeder industries. Contract farming and similar arrangements that ensure secure supplies of raw materials are the most recognizable form of a feeder industry arrangement. The assessment estimated that over 1,000 firms are involved in feeder industries, employ some 63,000 people, and have total sales of J\$1.5 billion. The most prominent feeder sub-sectors are manufacturing, miscellaneous services, financial intermediaries and commerce. Manufacturing records the highest sales at J\$47 million, while miscellaneous services earn the highest profits at J\$56 million.

Although these findings indicate that feeder industries are relatively healthy in Jamaica, feeder industry failures far outnumber successes. Even those companies that are marginally successful are plagued with problems. Primary problems are: poor training, insufficient capitalization, poor planning, and low levels of technology. These companies often focus on short-term measures rather than long term gains. Consequently, agreements to ensure supplies are unstructured. For example, contracts are broken if the supplying company is able to get a better price for its product, leaving the lead company without a reliable source. Many feeder arrangements fail to provide the profit incentive that galvanizes backward and forward linkages because host firms (lead firms) lack the capacity to provide technical assistance and credit to feeder firms.

The assessment recommends several measures to alleviate constraints: reorganization of financial market to provide risk capital to businesses, institutional support, and technical assistance to promote feeder industry relationships.

3. Export Marketing Process

This assessment identified major constraints to exporters of non-traditional products. The constraints are grouped into four broad categories: production, finance, marketing and bureaucracy. Small, medium and large scale producers in all sectors identified production constraints as the most important constraints, followed closely by financial constraints.

Production constraints include: inadequate and unreliable supply of raw materials, plant inefficiency and obsolescence, lack of spare parts, shortage of skilled labor, high utility costs, and inadequate plant capacity. Difficult to overcome, production constraints encourage inefficiencies and prevent economies

of scale. The assessment recommended several solutions which would require policy reforms including: reduction of import duties on equipment, price increases of local raw materials, and tax holidays. In addition, the assessment recommended creation of import free zones and export trading companies. Set aside zones could facilitate availability of production inputs. The trading companies could also provide bulk purchasing facilities, joint marketing arrangements and other activities to assist exporters.

Financial constraints are cross sectoral. Unavailability of credit, particularly long term; high interest rates; delays in accessing foreign exchange through the auction system; and high collateral requirements adversely affect private sector exporters. Recommendations to relieve financial constraints include establishment of retained foreign exchange accounts and export tax credits.

Less important constraints are marketing and bureaucracy. Product promotion is costly and lacks the follow-through of post-purchase servicing. In addition, exporters are often unaware of the characteristics of foreign markets and therefore, are unable to capture market niches. Bureaucratic red tape creates unnecessary delays and increases costs. Delays in customs clearance, excessive documentation, and the plethora of government agencies involved in exports also discourage exporters and increase costs.

Based on a combination of factors, such as export performance over the past five years, comparative advantage and value added, the sub-sectors identified with the most growth potential include: processed foods and beverages, fresh produce, tobacco, industrial minerals, chemicals, furniture, electronics, garments, printing and packaging, horticulture and tourism.

4. Financial Markets

The Financial Markets Assessment examined three areas of financial market development: the banking system, capital market, and private enterprise development. The financial sector acts as an intermediary between entrepreneurs seeking risk capital and investors seeking opportunities.

Many countries have established development banks to finance risk capital, and Jamaica's experience is mixed. Following poor management and other problems, the Jamaica Development Bank, which provided venture capital to local entrepreneurs, was restructured into the National Development Bank (NDB). NDB's risk averse philosophy eliminated the "venture" capital element by operating through commercial banks which use their own criteria for loans. The restructuring, therefore, has negated the original concept of development banking and closed this particular bank's window of risk capital.

Jamaica's banking system demonstrates a high level of professionalism and is well regarded. However, a number of problems are evident in regard to deposit and lending operations. The principal deposit gathering institutions capture far more resources than they lend. Rates of return on some businesses are considerably lower than the savings deposit rate. Savings deposits in commercial banks earn 18 percent, and inflation is about 14 percent, resulting in a real positive return to savers of four to five percent.

The capital markets are more limiting than the banking system. Jamaica's stock exchange is controlled by an oligopoly who have steadfastly refused to open the exchange beyond the current eight members. The lack of public confidence in the exchange is supported by the perception that the market is dominated by insiders. Forty companies are currently registered on the exchange, and a limited number of instruments are traded. More companies should be registered to broaden the base.

B. Financial Analysis

A project of this structure, where AID finances a portion of initial costs of a variety of activities for different organizations, is not susceptible to traditional financial analysis. However, a financial analysis of EDIP support for the NDF and an explanation of the financial effect of EDIP assistance on JAMPRO, is contained in Annex G.4. Project inputs will, in some cases, be single activities such as studies of alternative foreign exchange mechanisms, where AID resources pay part of the costs. In other activities, such as the feeder industry component, both AID and private companies will develop pilot efforts to undertake new methods of doing business, which in the long run must provide an adequate return to private sector investors who continue or replicate the project component.

An important principle of most project components is cost sharing, where AID and other organizations share costs of specific activities. Another important principle is the requirement for business plans to achieve financial self-sufficiency within a reasonable period of time for many recipients of project funds.

C. Economic Analysis

Annex G. 3 contains the economic analysis which contains a benefit-cost analysis of the activities proposed under the project. Based on an analysis of the value added in manufacturing, it is concluded that the project's hypothetical benefits exceed discounted project costs by a ratio of about 2 to 1.

D. Social Soundness Analysis

The social soundness analysis, presented in Annex G. 6, examines the impact of the project on Jamaican society, and concludes that it will have significant positive impact on traditionally disadvantaged groups. The urban unemployed population, which includes a high proportion of women, is expected to benefit greatly from project-financed activities.

E. Environmental Analysis

An Initial Environmental Examination was carried out at the PID stage of the project which yielded a Negative Determination. LAC-IEE-89-10 Environmental Threshold Decision was subsequently issued by the Chief Environmental Officer/LAC James Hester concurring in the Negative Determination with the

condition that the IP detail the environmental review process of supported activities pursuant to environmental soundness. AID/W subsequently issued 89 STATE 281362 which removed the conditionality. See Annex G.3 for the Environmental Threshold Decision and cable from AID/W.

F. Institutional Analysis

Annex G. 6, the Institutional Analysis reviews the rationale for selecting JAMPRO and NDF as the principal implementing agencies for EDIP.

V. Conditions and Covenants

USAID will sign a standard Project Grant Agreement with the Ministry of Finance, with JAMPRO designated as implementing agency. The PROAG will contain the standard condition precedent regarding the statement of authorized representatives. A standard covenant on evaluation will be included. In addition, the Project Agreement will contain a clause prohibiting the lending of funds to policy making and management officials of the National Development Foundation of Jamaica (NDF/J) and Jamaica Promotion Limited (JAMPRO), officers and management staff of firms auditing the NDF/J and JAMPRO and members of the immediate families (parents, brothers, sisters and children) of the above individuals.

The Project Agreement will contain a Condition Precedent stating that prior to disbursement of funds to NDF/J, NDF/J will submit to AID a financial analysis, acceptable to AID, demonstrating its plan to achieve financial self-sustainability.

ACTION: MID-2 INFO: AMB DCM ECON POL

ANNEX A

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TAGS:

SUBJECT: EXPORT DEVELOPMENT AND INVESTMENT PROMOTION
PROJECT (BDIP) PID (532-0135)

REF: 88 STATE 170619

1. SUMMARY: THE ISSUES MEETING FOR THE SUBJECT PID WAS HELD ON 1/3/89 AND THE DAEC MEETING ON 1/5/89. FIVE POINTS FOR DISCUSSION AND FIVE ISSUES WERE FORWARDED TO THE DAEC FOR CONSIDERATION. THE BUREAU APPROVES THE PID BUT REQUIRES THAT THE PROJECT PAPER BE SUBMITTED TO A.I.D./W FOR REVIEW AND AUTORIZATION. END SUMMARY.

2. POINTS OF DISCUSSION: AT THE REVIEW MEETING AGREEMENT WAS REACHED ON THE FOLLOWING POINTS:

A) CONSTRAINTS: THE PID ALLODES TO A NUMBER OF MACROECONOMIC AND MARKET CONSTRAINTS, AND IT IDENTIFIES A NUMBER OF DESIRED RESULTANT CONDITIONS. POLICY DIALOGUE IS PLANNED. EFFORTS ON THE STOCK EXCHANGE, STOCK EXCHANGE COMMISSION, AND THE OPERATION OF VENTURE CAPITAL FIRMS MAY NECESSITATE NEW LAWS. THE BUREAU UNDERSTANDS THAT THE MISSION WAS NOT AS YET DETERMINED

WHETHER SPECIFIC CONDITIONALITIES OR LEGISLATION A) NECESSARY TO ACCOMPLISH REFORMS FOR THE PROJECT TO PROCEED IN A TIMELY MASHION. THE MISSION WILL ANALYZE THESE POLICY CONSTRAINTS DURING THE DEVELOPMENT OF THE PP IN ORDER TO ESTABLISH THE LINKAGE BETWEEN THEM AND THE MEASURES PRESCRIBED AND TO EXPLAIN HOW PROJECT INTERVENTIONS WILL ALLEVIATE THESE CONSTRAINTS.

B) LOGICAL FRAMEWORK: SOME IOPS SEEM TO BE MEASURES OF GOAL ACHIEVEMENT, SOME OUTPUTS AND MEASURES SEEM TO BE RESULTS EXPECTED AT THE END OF THE PROJECT. THE MISSION REPRESENTATIVE AGREED THAT THE LOGICAL FRAMEWORK WILL BE REVIEWED AND REVISED DURING PROJECT DESIGN.

C) BUMPERS/LAUTENBERG AMENDMENTS: THE PAPER TCPS NOT PROVIDE DETAILS ON POTENTIAL CONFLICT AREAS, BUT THESE MAY OCCUR. THE MISSION, IN CONSULTATION WITH THE RIA, WILL EXPLAIN IN THE PP HOW THE PROJECT MEETS LEGISLATIVE

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REQUIREMENTS.

1) COST RECOVERY: THE MISSION REPRESENTATIVE CLARIFIED THAT THE FIFTH INDUSTRIAL PROGRAM WAS BASED ON COST SHARING AND THAT GIVEN THE SUBSTANTIAL TRAINING AND TECHNICAL ASSISTANCE ENVISIONED UNDER THE PROJECT THE PROSPECTS FOR COST RECOVERY FROM USERS AND BENEFICIARIES WILL BE DISCUSSED IN THE PP.

2) IMPLEMENTING AGENCIES: THE PID PROPOSES TO POTENTIALLY USE A NUMBER OF ORGANIZATIONS AS IMPLEMENTING AGENCIES. THE MISSION REPRESENTATIVE AGREES TO REVIEW AND ADDRESS THE DESCRIPTIVE CAPACITIES AND CAPABILITIES OF THESE ORGANIZATIONS IN THE PP'S ADMINISTRATIVE ANALYSIS.

3) ENVIRONMENTAL THRESHOLD DECISION: IT IS NOT POSSIBLE AT THIS TIME TO FULLY EVALUATE THE POTENTIAL ENVIRONMENTAL EFFECTS OF THE IDIP PROJECT, SINCE THE SPECIFIC BUSINESSES TO BE SUPPORTED AND THEIR ACTIVITIES WILL ONLY BECOME CLEAR AS THE PROJECT DEVELOPS FURTHER. HOWEVER, A.I.D.'S PLANNED INPUTS TO IDIP ARE PRIMARILY TO BE TRAINING, TECHNICAL ASSISTANCE AND A LIMITED SUPPLY OF COMMODITIES. THEREFORE, A NEGATIVE ENVIRONMENTAL THRESHOLD DECISION IS GIVEN AT THIS TIME, WITH THE CONDITION THAT THE PP DETAIL THE ENVIRONMENTAL REVIEW MECHANISM TO BE DEVELOPED AND IMPLEMENTED UNDER THE PROJECT TO ENSURE THAT INDIVIDUAL ACTIVITIES SUPPORTED ARE CONDUCTED IN AN ENVIRONMENTALLY SOUND MANNER.

3. DABC REVIEW: AT THE DABC MEETING WHICH WAS ATTENDED BY MISSION REPRESENTATIVE WALTER COLES, FIVE ISSUES WERE CONSIDERED: MORTGAGE, BREADTH/INTERRELATIONSHIPS, MANAGEMENT, CREDIT AND DELEGATION OF AUTHORITY. THE FOLLOWING DECISIONS/UNDERSTANDINGS WERE REACHED ON EACH ISSUE:

A) MORTGAGE: REPTEL REQUESTED THAT THE MISSION ADDRESS THE LEVEL OF FUNDING AND MORTGAGE IMPLICATIONS OF THE PROJECT IN THE PID. THE MPD WAS APPROVED FOR DEVELOPMENT AT AN LOP OF DOLS. 12 MILLION AND AN INITIAL OBLIGATION OF DOLS. 1.4 MILLION. THE PID SUBMITTED, HOWEVER, ASSUMES LOP FUNDING AND AN INITIAL OBLIGATION OF DOLS. 14 MILLION AND DOLS. 2 MILLION, RESPECTIVELY.

DECISION: THE MISSION REPRESENTATIVE BELIEVES THAT A DOLS. 14 MILLION PROJECT COST IS REASONABLE FOR IDIP AS SUBMITTED. WITHIN THIS LEVEL THE MISSION WILL ADJUST THE LOP OF THE PROJECT TO REFLECT DECISIONS MADE ON FINAL PROJECT DESIGN AND TO INCLUDE PROVISIONS FOR NON-FEDERAL AUDITS AND EVALUATIONS. IT WAS NOTED THAT

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THE PROPOSED PROJECT WAS TOP RANKED BY MISSION IN THE PS&I ACCOUNT FOR FY 94. THEREFORE, IF NECESSARY, THE MISSION WILL ADJUST OTHER PROJECTS IN ITS PORTFOLIO TO ACCOMMODATE FUNDING FOR THIS PROJECT.

B) BREADTH/INTERRELATIONSHIPS: THE PID STATES THAT PROJECT COMPONENTS ARE INTERDEPENDENT, THEREFORE ONE PROJECT IS JUSTIFIED. THE MISSION REPRESENTATIVE ARGUED STRONGLY FOR THE NEED FOR THE PROJECT TO COMPREHENSIVELY ADDRESS CONSTRAINTS TO PRIVATE SECTOR EXPANSION INSTEAD OF FOCUSING ON ONLY A FEW CONSTRAINTS. HOWEVER, SOME PROJECT COMPONENTS DO NOT SEEM CLOSELY RELATED TO OTHERS AND IT WAS DIFFICULT TO SEE THE ADVANTAGES OF PROCEEDING WITH ALL OF THE ACTIVITIES PROPOSED AS A SINGLE PROJECT. IN ADDITION, THE PID DID NOT INDICATE ANY PLAN TO LINK PROJECT INTERVENTIONS DURING IMPLEMENTATION ALTHOUGH THE MISSION REPRESENTATIVE INDICATED THAT AN OVERALL MECHANISM TO LINK PROJECT COMPONENTS WOULD BE DEVELOPED DURING PROJECT DESIGN. FINALLY, IT WAS DIFFICULT TO FORESEE HOW SO MANY PROJECT COMPONENTS COULD BE INITIATED AND PROCEED SIMULTANEOUSLY.

DECISION: BASED ON FINDINGS OF THE FOUR PLANNED ASSESSMENTS AND A REVIEW OF THE LOGICAL FRAMEWORK FOR THE PROJECT THE MISSION WILL DESIGN THE PROJECT SO THAT IT INCLUDES ACTIVITIES THAT ARE COMPLEMENTARY AND INTEGRATED AND EXCLUDES COMPONENTS NOT CLOSELY RELATED

TO CORE COMPONENTS. THOSE OMITTED SHOULD BE DROPPED OR ADDRESSED IN ANOTHER ACTIVITY. THE MISSION SHOULD CONSIDER PHASING THE REMAINING COMPONENTS TO AVOID PROBLEMS ASSOCIATED WITH SIMULTANEOUS START-UP.

C) MANAGEMENT: PLANS FOR MANAGING THE PROJECT ARE NOT CLEARLY PRESENTED IN THE PID. HOWEVER, THE MISSION REPRESENTATIVE INDICATED THAT UNDER AN UMBRELLA AGREEMENT WITH THE GOJ, JAMPRO WOULD PLAY A PRIMARY ROLE IN MANAGING ALL PUBLIC SECTOR PROJECT ELEMENTS AND WOULD CO-SIGN PIDS PRESENTING MISSION PLANS TO PROVIDE SUB-GRANTS FOR PRIVATE SECTOR ACTIVITIES OR JAMPRO WOULD MAKE SUCH SUB-GRANTS WITH MISSION CONCURRENCE.

DECISION: IT IS RECOGNIZED THAT PLANS FOR APPROPRIATELY LINKING THE IMPLEMENTATION OF DIFFERENT PROJECT COMPONENTS HAVE NOT YET BEEN DEVELOPED. AS A GENERAL PRINCIPLE, NO ORGANIZATION SHOULD BE USED SIMPLY AS A PASS THROUGH FOR OBLIGATING FUNDS. JAMPRO OR ANY OTHER IMPLEMENTING AGENCY SHOULD HAVE A SUBSTANTIVE ROLE TO PLAY IN THE PROJECT. THE MISSION, THEREFORE, WILL CLEARLY DETAIL THE LINES OF RESPONSIBILITIES IN THE PP.

D) CREDIT THE MISSION REPRESENTATIVE EXPLAINED THAT IT IS PROPOSED UNDER THE PROJECT TO ESTABLISH A NOT-FOR-PROFIT VENTURE CAPITAL COMPANY TO BE MANAGED BY REPRESENTATIVES OF NGOS. THAT COMPANY WOULD BE FINANCED BY AN A.I.D. GRANT AND BY PRIVATE CONTRIBUTIONS AND WOULD MAKE EQUITY INVESTMENTS IN SMALL BUSINESSES. IN ADDITION, CREDIT FOR SELECTED PRIVATE SECTOR BUSINESSES

COULD BE PROVIDED THROUGH SUB-GRANTS BY THE MISSION OF
 BY JAMPRO UNDER AN UMBRELLA AGREEMENT SIGNED WITH THE
 GOJ FOR THE OVERALL GRANT. A.I.D. HAS HAD MIXED
 EXPERIENCE WITH VENTURE CAPITAL EFFORTS FOR VARIOUS
 REASONS INCLUDING THEIR CONFORMANCE WITH LOCAL LAW, THE
 INEXPERIENCE OF THEIR MANAGEMENT, AND SMALL OR
 NON-EXISTENT MARKETS FOR FUTURE SALE OF EQUITY. THE
 ACT-DCP-PROFIT CONCEPT RAISES QUESTIONS OF THE INCENTIVE
 FOR OWNERS AND INVESTORS PARTICIPATION. A.I.D. HAS ALSO
 HAD PROBLEMS WHEN IT IS A.I.D. THAT RECEIVES WHICH ENTITY
 IS TO RECEIVE FINANCIAL ASSISTANCE.

DECISION: ALTHOUGH A.I.D. IS NOT LEGALLY PROHIBITED
 FROM PROVIDING GRANTS FOR THE PROFIT MAKING PRIVATE
 SECTOR, A.I.D.'S FINANCIAL MARKETS DEVELOPMENT POLICY
 FAVORS LOAN FINANCING AT MARKET RATES OF INTEREST FOR
 SUCH ENTITIES. IF FINAL PROJECT DESIGN INCLUDES
 PROVIDING FUNDS ON A GRANT BASIS TO SUCH ENTERPRISES,

ANALYSIS IN THE PROJECT PAPER SHOULD SHOW WHY GRANT
 FINANCING IS JUSTIFIED. IF VENTURE CAPITAL FUNDING IS
 PLANNED THE PP ANALYSIS SHOULD SHOW WHY EQUITY
 INVESTMENT RATHER THAN CREDIT IS NEEDED AND SHOULD
 DEMONSTRATE THAT A VENTURE CAPITAL COMPANY IS FEASIBLE
 AND LEGAL IN JAMAICA. PRIOR TO INCLUDING A VENTURE
 CAPITAL ACTIVITY IN THE PROJECT, MISSION SHOULD REVIEW
 A.I.D.'S EXPERIENCE WITH SUCH ACTIVITIES INCLUDING:
 BIAMP RDO/C; BANEX AND CINDE - COSTA RICA; FUSADES -
 EL SALVADOR; CAIC RDO/C; AND BUSINESS VENTURE
 PROMOTIONS - THAILAND. FINALLY, IT IS PREFERABLE FOR AN
 APPROPRIATE INTERMEDIARY ORGANIZATION TO DETERMINE WHICH
 PRIVATE SECTOR ENTERPRISES RECEIVE FINANCING. THE
 PROJECT PAPER SHOULD INDICATE HOW SUCH AN INTERMEDIARY
 WILL OPERATE, THE CRITERIA TO BE USED IN ALLOCATING
 FUNDS, AND THE MECHANISM FOR MONITORING PERFORMANCE. IF
 FINAL DESIGN INSTEAD PROVIDES FOR MISSION TO DETERMINE
 FUNDING RECIPIENTS THE PP SHOULD PROVIDE SIMILAR
 INFORMATION AS WELL AS THE JUSTIFICATION FOR NOT USING
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AN INTERMEDIARY.

E) DELEGATION OF AUTHORITY: IN CONSIDERING THE MISSION'S REQUEST TO AUTHORITY AND APPROVE THE RIF PROJECT IN THE FIELD, THE DAFC CONSIDERED, AMONG OTHER POINTS, THE COMPLEXITY OF THE PROJECT AND A.I.D. CREDIT POLICY ISSUES.

DECISION: THE DAFC APPROVES THE PID BUT THE PROJECT PAPER MUST BE SUBMITTED TO AID/W FOR REVIEW AND AUTHORIZATION.

UNDERSTANDING: THE DAFC AGREED THAT A REPRESENTATIVE OF LAC/PSA OR A CONSULTANT, MUTUALLY SELECTED BY AID/W AND THE MISSION, WITH EXPERIENCE IN VENTURE CAPITAL AND PRIVATE ENTERPRISE DEVELOPMENT IN THE LAC REGION, WOULD PARTICIPATE IN THE DEVELOPMENT OF THE PP. TDY PLANS WILL BE THE SUBJECT OF SEPTEL.

4. PPC/PDPR REQUESTED THAT THE FINANCIAL MARKETS ASSESSMENT NOW UNDERWAY CONSIDER A NUMBER OF ISSUES. IN ESSENCE, THESE ISSUES TRACK THE POINTS NOTED ABOVE AND NEED TO BE ADDRESSED IN THE PP, BUT DO NOT ALL REQUIRE WORK BY THE CONTRACTED FINANCIAL MARKETS TEAM. MEMO FROM NEAL ZANK OF PPC DISCUSSING THESE ISSUES HAS BEEN FAXED TO MISSION SEULTZ

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E.O. 12355: N/A

TAGS:

SUBJECT: EXPORT DEVELOPMENT AND INVESTMENT PROMOTION
PROJECT (EDIP) PP (532-4135)

ACTION COPY
ACTION TAKEN:
*PP reviewed by OPEd
e-TOY DIA*

FILE

1. SUMMARY: THE DAEC FOR THE EDIP PROJECT PAPER WAS HELD ON 9/23-29/99. THE PROJECT PROPOSED SEVERAL INNOVATIVE INITIATIVES AS WELL AS FOLLOW-ON FUNDING FOR PROVEN ACTIVITIES TO SUPPORT PRIVATE SECTOR DEVELOPMENT, PARTICULARLY IN THE EXPORT SECTOR. IT WAS CONCLUDED THAT THE PP AS PRESENTED REQUIRED ADDITIONAL ANALYSES TO VALIDATE THE PP'S ASSERTIONS OF PROJECT FEASIBILITY PRIOR TO AUTHORIZATION. IT ALSO WAS DECIDED THAT THE AMOUNT OF THE INITIAL AUTHORIZATION AND LOP WOULD BE REDUCED TO BETTER REFLECT THE PILOT NATURE OF SEVERAL OF THE ACTIVITIES AND THE RECOGNIZED PROBABILITY THAT ACTIVITIES UNDER THE PROPOSED PROJECT WOULD HAVE TO BE ADJUSTED TO REFLECT INITIAL IMPLEMENTATION EXPERIENCE. THE LAC BUREAU DELEGATES AUTHORITY TO THE FIELD TO APPROVE THE PP SUBJECT TO THE MODIFICATIONS OUTLINED IN PARAGRAPH 3 BELOW. END SUMMARY.

2. POINTS OF DISCUSSION: AT THE ISSUES MEETING HELD ON 9/24/99 AGREEMENT WAS REACHED ON THE FOLLOWING POINTS:

A) PROBLEM DEFINITION - IN RESPONSE TO A QUESTION SEEKING CLARIFICATION OF THE PROJECT'S PURPOSE, MISSION REPRESENTATIVES CONFIRMED THAT IT WAS TO INCREASE EXPORTS AND DIVERSIFY INVESTMENTS. MISSION REPRESENTATIVES AGREED THAT NON-TRADITIONAL EXPORT GROWTH HAD BEEN SIGNIFICANT BUT THAT THERE WAS A KNOWN POTENTIAL FOR SUBSTANTIALLY INCREASED EXPORTS IF CONSTRAINTS COULD BE REMOVED. SMALL BUSINESSES ARE THOUGHT TO SIGNIFICANTLY CONTRIBUTE TO EXPORTS AND REPRESENT A DYNAMIC SOURCE OF ADDITIONAL EMPLOYMENT GENERATION.

B) INSTITUTIONAL LINKAGE - DURING INTENSIVE MISSION REVIEW, THE NEED TO TRAIN SKILLED AND SEMI-SKILLED WORKERS WAS EXAMINED. THE MISSION DISCERNED NO NEED FOR THIS TYPE OF TRAINING UNDER THIS PROJECT. TRAINING PROGRAMS IN JAMAICA PROVIDE SUCH TRAINING, SOME OF WHICH DO NOT MEET THE REQUIREMENTS OF THE LOCAL JOB MARKET.

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OPDS -	OPED
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CONT -	R.F. ✓
DUE BY:	10/11
ACTION:	N/A

10/4/99

FOR MANY SKILLS, FIRMS IN THE INDUSTRY PREFER TO TRAIN THEIR OWN EMPLOYEES.

C) CAPABILITY/CAPACITY - BOTH JAMPRO AND NDF HAVE UNDERGONE RECENT FINANCIAL ASSESSMENTS BY CPA FIRMS. MISSION REPRESENTATIVES STATED THAT THEY HAVE HAD YEARS OF EXPERIENCE WITH BOTH, THEY BELIEVED THAT USAID'S EXPERIENCE CONFIRMS AND THE RECENT ASSESSMENTS INDICATE THAT BOTH ORGANIZATIONS HAVE THE CAPABILITY TO IMPLEMENT THE PLANNED PROJECT. THE QUESTION OF THE CAPABILITY AND CAPACITY OF THE IMPLEMENTING ORGANIZATIONS WAS FURTHER CONSIDERED AT THE DAFC. THE RESULTING DECISION AND GUIDANCE ARE NOTED IN PARAGRAPH 3 BELOW.

D) JAMPRO INVOLVEMENT IN AREAS MORE APPROPRIATE FOR THE PRIVATE SECTOR - A MAJOR AREA OF CONCERN AT THE REVIEW WAS THE EXPORT PROMOTION ACTIVITY. MINIMAL FUNDS WILL GO TO JAMPRO FOR THIS. USAID'S POLICY DIALOGUE ENCOURAGES THE PRIVATIZATION OF JAMPRO'S ACTIVITIES. JAMPRO ITSELF, WITH ITS PRIVATE SECTOR BOARD CHAIRMAN AND PREDOMINANT PRIVATE SECTOR BOARD, IS A CONSOLIDATION OF THREE GOVERNMENT AGENCIES, WHICH MEASURABLY INCREASED THE EFFICIENCY AND REDUCED THE COST OF JAMPRO ACTIVITIES.

E) SELF-SUSTAINABILITY - THE QUESTION WAS RAISED ON WHETHER IT WAS REALISTIC TO EXPECT THAT SMALL BUSINESS ORGANIZATIONS WHICH WOULD PROVIDE THE SERVICES INTENDED COULD EVER BE SELF-SUSTAINING. IT WAS POINTED OUT THAT ALTHOUGH SELF-SUSTAINING ORGANIZATIONS OF THIS TYPE ARE NOT THE NORM IN LDC'S, MANY SUCCESSFUL EXAMPLES EXIST

ELSEWHERE PROVISION OF A PLAN TO ATTAIN SELF-SUFFICIENCY BY EACH ORGANIZATION SELECTED TO PARTICIPATE IS A PREREQUISITE TO PROJECT FINANCING. THESE PLANS ARE TO BE CAREFULLY REVIEWED AT THE MISSION.

F) PROMOTION TRIPS (APPROPRIATENESS OF COSPARING) - MISSION REPRESENTATIVES CONFIRMED THAT INVESTMENT PROMOTION TRIPS WILL ONLY BE MADE TO EVENTS SUCH AS TRADE FAIRS. ALTHOUGH THE PROJECT WILL FUND PER DIEM, PRIVATE FIRMS WILL PAY FOR TRAVEL AND OTHER COST ASSOCIATED WITH TRIPS.

G) SEC-TYPE BODY - IN RESPONSE TO A QUESTION ON WHETHER THE PROJECT WOULD PAY FOR SALARIES OF PROFESSIONALS AND RECURRENT COST FOR THIS ORGANIZATION, MISSION REPRESENTATIVES STATED THAT PLANS ARE TO PAY ONLY FOR THE SALARIES OF TWO PROFESSIONALS FOR THE FIRST TWO YEARS OF THE PROJECT. THIS COMPONENT WAS EXAMINED FURTHER DURING THE DAFC (SEE PARA 3P(4) BELOW).

H) CREDIT (STATUS OF NDF AND A.I.D.'S ROLE IN

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SUB-LOANS) - NDF, WHICH WILL ON-LEND THE FUNDS TO DESERVING FIRMS, IS AN ESTABLISHED ORGANIZATION THAT HAS RECEIVED PREVIOUS GRANTS FROM A.I.D. PROCEDURES AND ACCOUNTABILITY ALREADY HAVE BEEN ESTABLISHED. MISSION REPRESENTATIVES CONFIRMED THAT USAID/JAMAICA WILL NOT APPROVE EACH SUB-LOAN.

3. DAEC REVIEW: TWO CATEGORIES OF ISSUES WERE RAISED DURING THE DAEC: 1) THE ADEQUACY OF THE VARIOUS TECHNICAL ANALYSES UNDERLYING THE PROJECT DESIGN AND REQUESTED AUTHORIZATION AND 2) SPECIFIC ISSUES RELATED TO INDIVIDUAL PROJECT COMPONENTS. IT WAS CONCLUDED THAT THE PP DID NOT PROVIDE AN ADEQUATE BASIS FOR PROJECT AUTHORIZATION AND WOULD REQUIRE MODIFICATION. THE FOLLOWING OUTLINES THE AREAS IN WHICH MODIFICATIONS TO THE PP ARE REQUIRED.

A. PROJECT ANALYSES:

1) FINANCIAL ANALYSIS - THE PP'S FINANCIAL ANALYSIS ASSERTS THAT THE PROJECT IS NOT SUSCEPTIBLE TO TRADITIONAL FINANCIAL ANALYSIS. WHILE THIS CONCLUSION MAY BE REASONABLE FOR SOME PROJECT ACTIVITIES (SUCH AS SPECIFIC FEASIBILITY STUDIES), OTHER COMPONENTS CLEARLY REQUIRE SEPARATE ANALYSIS, IN PART TO REACH CONCLUSIONS ABOUT SUSTAINABILITY. THIS IS TRUE PARTICULARLY FOR THOSE ACTIVITIES TO BE IMPLEMENTED BY EXISTING

INSTITUTIONS WHICH ARE PLANNED TO BE EXPANDED UNDER THE PROJECT, E.G., THE NATIONAL DEVELOPMENT FOUNDATION (NDF) AND JAMPRO. THE PP'S CONCLUSION THAT THE NDF CAN SUSTAIN SMALL BUSINESS LENDING FOLLOWING PROJECT COMPLETION WITH THE CAPITAL PROVIDED BY THE A.I.D. GRANT IS UNSUPPORTED. IN THE CASE OF JAMPRO, THE RECURRENT COSTS OF ITS OPERATIONS NOW AND AS A RESULT OF THE EXPANSION UNDER THE PROJECT ARE UNSATED, MAKING IT DIFFICULT FOR THE MISSION OR THE GOJ TO CONCLUDE THAT ITS FUTURE COSTS CAN BE OR SHOULD BE ABSORBED BY THE GOJ.

IN THE REVISED PP, THE MISSION SHOULD DISAGGREGATE THE FINANCIAL ANALYSIS SECTION OF THE PP, AND UNDERTAKE THE APPROPRIATE ANALYSIS FOR THOSE ACTIVITIES WHICH NORMALLY REQUIRE THIS ANALYSIS. FOR EXAMPLE, IN THE CASE OF THE NDF, A CASH FLOW PROJECTION SHOULD BE PREPARED, DEMONSTRATING THAT THE NDF CAN CONTINUE ITS LENDING OPERATIONS IN THE FUTURE WITHOUT ADDITIONAL A.I.D. ASSISTANCE.

2) INSTITUTIONAL ANALYSIS - THE JANUARY 1979 PID APPROVAL CABLE ASKED THE MISSION TO REVIEW AND ADDRESS THE ABSORPTIVE CAPACITIES AND CAPABILITIES OF THE VARIOUS IMPLEMENTING AGENCIES. NO INSTITUTIONAL ANALYSIS IS PROVIDED IN THE PP, THEREFORE, IT IS DIFFICULT TO DETERMINE WHETHER THE MOST EFFECTIVE AND EFFICIENT ALTERNATIVES FOR ASSIGNING IMPLEMENTATION RESPONSIBILITIES TO JAMPRO, NDF AND USAID/JAMAICA HAVE BEEN EXAMINED. AN ASSESSMENT OF ANY ADDITIONALLY

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IDENTIFIED IMPLEMENTING AGENCY (INCLUDING NI*J) SHOULD BE INCLUDED.

3) PROJECT MANAGEMENT/MONITORING - A CLEAR PRESENTATION OF THE VARIOUS ROLES AND RESPONSIBILITIES OF EACH IMPLEMENTING AGENCY (FOR EACH COMPONENT) SHOULD BE PROVIDED. FOR INSTANCE, WHAT IS THE MISSION'S RELATIONSHIP WITH JAMPRO? HOW WILL THE PROJECT COMMITTEE OPERATE? WHAT ARE PROGRAM AUDITS AND THEIR ROLE IN PROJECT MANAGEMENT AND EVALUATION? IT WOULD BE USEFUL TO PROVIDE A MATRIX OF THE CATEGORIES OF GRANTS/SUBGRANTS AND CONTRACTS BY PROJECT COMPONENT TO INDICATE THE TYPE OF AGREEMENT/SUBAGREEMENT AND PROPOSED PARTIES TO THE AGREEMENT(S).

4) EVALUATION PLAN - MISSION REPRESENTATIVES CHARACTERIZED THE PROJECT AS BEING QUOTE MARKET-DRIVEN UNQUOTE, ALLOWING SUFFICIENT FLEXIBILITY AND LACK OF UP-FRONT SPECIFICITY TO PERMIT THE PROJECT ACTIVITIES TO

RESPOND TO OPPORTUNITIES OR DROP COMPONENTS WHICH FALTER. KEY TO THIS APPROACH TO DESIGN IS THE PLANNED PROJECT MANAGEMENT INFORMATION SYSTEM (MIS). WHILE THE PP RECOGNIZES ITS IMPORTANCE, NO SYSTEM WAS DESCRIBED, OR APPROACH TO PUTTING IT IN PLACE. THE REVISED PP SHOULD CONTAIN THIS PLAN, INCLUDING A DESCRIPTION OF THE MANAGEMENT INFORMATION SYSTEM, AND THE ROLE OF PROGRAM AUDITS. THE RELATIONSHIP BETWEEN THE MIS AND THE DATA NEEDED TO ASSESS OUTPUT AND PURPOSE-LEVEL ACHIEVEMENT ALSO SHOULD BE DESCRIBED.

B. ISSUES BY ACTIVITY:

1) IESC - A NUMBER OF QUESTIONS REMAIN UNANSWERED UNDER THIS COMPONENT. HOW WILL MISSION MANAGE/MONITOR THIS ELEMENT? WHO WILL APPROVE SUB GRANTS? THE MISSION MAY WISH TO CONSIDER INCLUDING IPSC AS A SEPARATE GRANT COMPONENT UNLESS THE PLAN IS FOR JAMPRO TO SIGN THE GRANT (ASSUMING THAT JAMPRO WILL HAVE A SUBSTANTIVE ROLE

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IN MANAGING THE IESC COMPONENT). THE CONCEPT OF COST SHARING SHOULD BE MORE CLEARLY DEFINED. A GENERAL STATEMENT OF IESC'S CURRENT APPROACH AND IN PARTICULAR THOSE ELEMENTS WHICH WILL BE INCORPORATED UNDER THE PROPOSED GRANT SHOULD BE INCLUDED (E.G., MINIMUM CASH CONTRIBUTION; GRADUATED SCALE OF INCREASED USER COST). SPECIFIC SELECTION CRITERIA SHOULD BE OUTLINED IN THE REVISED PP, OR DEFINED IN THE AGREEMENT WITH IESC.

2) FEEDER INDUSTRY - AS A PILOT EFFORT IN A NEW AREA, THE BUREAU RECOGNIZES THAT A DETAILED DESCRIPTION OF THIS COMPONENT IS NOT REASONABLE AT THIS TIME. HOWEVER, THE PP SHOULD MORE CAREFULLY OUTLINE THE SELECTION PROCESS FOR THE FIRST OF THE FEEDER INDUSTRY ACTIVITIES, INCLUDING THE ROLES OF JAMPRO AND THE MISSION, ANTICIPATED SELECTION CRITERIA (PARTICULARLY THE PRINCIPLE OF COST SHARING), HOW THE GRANT WILL BE MONITORED AND BY WHOM, HOW THE OBJECTIVE OF ACHIEVING A SPREAD EFFECT WILL BE IMPLEMENTED AND THE ROLE OF THE NDF LOAN FUND. THOSE SPECIFIC AREAS TO BE FUNDED WITH A.I.D. GRANT FUNDS SHOULD BE DEFINED CONSISTENT WITH A.I.D. POLICY. THE INITIAL PROJECT AUTHORIZATION SHOULD LIMIT THE PROJECT TO FUNDING ONE COMPETITIVELY SELECTED FEEDER INDUSTRY ACTIVITY.

3) INVESTMENT PROMOTION - THIS COMPONENT NEEDS TO BE DEVELOPED FURTHER. WHAT IS THE CRITERIA (IN GENERAL) FOR SELECTING JOINVENTURE PARTNERS? WHAT HAS BEEN THE JAMAICAN JOINT VENTURE EXPERIENCE IN THE PAST? WHAT IS

MISSION'S APPROVAL ROLE (IF ANY)?

4) STOCK EXCHANGE - UNTIL THERE IS A POLICY AND POLITICAL DECISION TO OPEN ACCESS TO THE EXCHANGE, CONSIDERATION OF POSSIBLE ASSISTANCE TO THE STOCK EXCHANGE IS PREMATURE. THE REVISED PP, THEREFORE, SHOULD BE LIMITED TO CONSIDERATION OF ASSISTANCE TO HELP GUIDE THE GOJ IN THE OPTIONS TO BE CONSIDERED FOR RESTRUCTURING THE EXCHANGE, DEFINING AND AUTHORIZING ASSISTANCE TO IMPLEMENT CHANGES IN THE STOCK EXCHANGE SHOULD BE LEFT TO A FUTURE AMENDMENT OF THIS PROJECT OR A NEW PROJECT.

5) OTHER COMPONENTS - FOR THE ACTIVITIES INVOLVING SMALL BUSINESS SUPPORT, PRIVATE SECTOR ORGANIZATIONS, AND PUBLIC SECTOR ORGANIZATIONS, THE FOLLOWING AREAS SHOULD BE INCLUDED IN THE REVISED PP: THE SELECTION CRITERIA TO BE FOLLOWED; A DESCRIPTION OF THE PROCESS FOR SELECTION AND IMPLEMENTATION MONITORING (WHO WILL PARTICIPATE, WHO WILL MAKE THE FINAL DECISION ON SELECTION, HOW WILL THE PRINCIPLE OF COST BE APPLIED TO THE PRIVATE SECTOR ENTITIES). THESE ACTIVITIES, PARTICULARLY THOSE INVOLVING THE PRIVATE SECTOR, ALSO ARE PILOT INITIATIVES WHOSE POTENTIAL FOR CONTRIBUTING TO THE PROJECT PURPOSE REMAINS TO BE DEMONSTRATED. FOR THAT REASON, THE REVISED PP SHOULD LIMIT THE FUNDING AUTHORIZED FOR THOSE ACTIVITIES PENDING DEMONSTRATION OF

THEIR IMPORTANCE AND VIABILITY.

5) LOGICAL FRAMEWORK - A NUMBER OF OUTPUTS PRESENTED IN THE LOG FRAME MATRIX DO NOT SEEM TO ADDRESS DIRECTLY AND SPECIFICALLY THE STATED PURPOSE OF INCREASING EXPORTS AND DIVERSIFYING INVESTMENTS. FOR EXAMPLE, HOW DOES THE REDUCTION IN THE GOJ'S BUDGET DEFICIT DIRECTLY ADDRESS THE PROJECT'S PURPOSE? THE RELATIONSHIP OF THIS OUTPUT TO THE PURPOSE IS DIFFICULT TO DETERMINE SINCE IT WAS NOT DISCUSSED IN THE NARRATIVE. THE PP SUGGESTS AN INTERRELATED WEB OF ACTIVITIES TO ADDRESS AN INTERRELATED SET OF CONSTRAINTS. THE OUTPUTS OF THE LOG FRAME SHOULD, THEREFORE, BE REFORMULATED TO FORM AN INTEGRATED SET OF ACTIVITIES THAT ARE NECESSARY AND SUFFICIENT TO ACHIEVE THE STATED PURPOSE OF THE REVISED PROJECT PAPER. ALL CONCEPTS SHOULD BE DISCUSSED IN THE NARRATIVE OF THE REVISED PP.

4. PROJECT DESIGN PARAMETERS - ACTIVITIES ARE TO BE SCALED BACK TO AN LOP OF 3 YEARS WITH A COMMENSURATE TOTAL FUNDING OF NE DOLS 7 MILLION. THE DAEC ALSO

AGREED TO THE MISSION'S REPROGRAMMING OF DOLS 2 MILLION INCLUDED IN ITS CURRENT OYB FOR THE EDIP PROJECT AS FOLLOWS:

A) DOLS 1 MILLION WORTH OF PROPOSED ACTIVITIES, THAT WOULD HAVE BEEN FINANCED UNDER THIS PROJECT THIS FISCAL YEAR, WILL BE FINANCED INSTEAD UNDER AN AMENDMENT TO THE TECHNICAL CONSULTATIONS AND TRAINING GRANT (532-2879) PROJECT. THESE ACTIVITIES INCLUDE:

(1) THE CONTINUATION OF TECHNICAL ASSISTANCE PROVIDED BY THE INTERNATIONAL EXECUTIVE SERVICE CORPS (IESC) AND JAMAICA PROMOTIONS, LTD. (JAMPRO) TO ASSIST SMALL BUSINESS AND EXPORT ENTERPRISES;

(2) FUNDING OF LOCAL TRADE FAIRS, INCLUDING JAMAICA'S REGIONAL QUOTE FASHION CARNIVAL UNQUOTE AND

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PARTICIPATION IN U.S. TRADE SHOWS, PRIMARILY BY
INDIVIDUALS OF NEW EXPORT ENTERPRISES:

(3) FINANCING OF POLICY AND OPERATIONAL STUDIES TO
ADDRESS THE JAMAICAN FINANCIAL MARKET AND STATE-OWNED
ENTERPRISES DEFICIENCIES;

(4) FINANCING OF PROFESSIONAL SERVICES TO SUPPORT THE
GOJ'S EXPANSION OF PREVIOUSLY SUCCESSFUL PRIVATIZATION
EFFORTS; AND

(5) FUNDING FOR PRIVATE ORGANIZATIONS LIKE THE TOURISM
ACTION PLAN (TAP) WHICH SUPPORT BUSINESS DEVELOPMENT; AND

B) THE SECOND DOLS 1 MILLION WILL BE USED TO FORWARD
FUND AND REDUCE THE MORTGAGE UNDER THE AGRICULTURAL
EXPORT SERVICES (532-0155) PROJECT. BAKER

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**PROJECT DESIGN SUMMARY
LOGISTICAL FRAMEWORK**

PROJECT: EXPORT DEVELOPMENT AND INVESTMENT PROMOTION
No. 532-0135

<u>NARRATIVE SUMMARY</u>	<u>VERIFIABLE INDICATORS</u>	<u>MEANS OF VERIFICATION</u>	<u>ASSUMPTIONS</u>
PROJECT GOAL: to stimulate economic growth	annual increase in GDP	GOJ Statistics	continued economic stability; no disasters.
PROJECT PURPOSE: to increase exports and diversify investments	0.25% increase in incremental value added of exports; and increase in annual growth of new investments	GOJ Statistics (JAMPRO, PIOJ)	continued policy reforms at micro-economic level.
OUTPUTS:			
-Business inefficiencies reduced	increase in productivity	-GOJ employment & production stats. -Program audits -Business fin statements	continuity in in GOJ policy support to private sector
-number of small businesses increased	100 new small bus start-ups initiated	-GOJ, NDF, statistics	
-5% increase in women-owned businesses.	55% of loans geared to women	-GOJ, NDF, statistics	
-business linkages improved	1 feeder industry pilot project operating	-on-site visits -Evaluation	
-increased rate of joint venture/collab	9 new agreements operational	-JAMPRO reports -Evaluation	
-private sector organizations self-sufficient	Service revenues of 2 private sector organizations increase	-Review of audited financial statements -Program audit	
-public sector organizations streamlined	creation of one-stop Customs import/export processing facility, as an example	-site visits & JANPRO reports	
-improved small business services	small business entrepreneurial centers operational & self-sufficient	-site visits and audited financial statements	
-reduce GOJ budget-deficit	privatize or divest 20 SOEs	-GOJ Budget/IMF Statement -NIEJ and audited financial statements	
INPUTS:			
	(\$000)		
-Long & Short Term TA	3,600.0		inputs are provided on timely basis
-Commodities	410.0		
-Credit	900.0		
-Training	414.5		
-Grants	980.5		
-Audits/Evaluations	205.0		
-Implementation	180.0		
-Contingency	310.0		
	7,000.0		

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5C(2) - PROJECT CHECKLIST

Listed below are statutory criteria applicable to projects. This section is divided into two parts. Part A includes criteria applicable to all projects. Part B applies to projects funded from specific sources only: B(1) applies to all projects funded with Development Assistance; B(2) applies to projects funded with Development Assistance loans; and B(3) applies to projects funded from ESF.

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

YES. Country Checklist completed with FY 90 CLASP II Project Paper

A. GENERAL CRITERIA FOR PROJECT

1. FY 1989 Appropriations Act Sec. 523; FAA Sec. 634A. If money is sought to be obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified?
2. FAA Sec. 611(a)(1). Prior to an obligation in excess of \$500,000, will there be (a) engineering, financial or other plans necessary to carry out the assistance, and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?
3. FAA Sec. 611(a)(2). If legislative action is required within recipient country, what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance?

Per STATE 062105, since amount proposed for FY 90 obligation is within amount contained in FY 1990 Congressional Presentation, no additional CN required.

yes

N/A

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FAA Sec. 511(b); FY 1989 Appropriations Act Sec. 501. If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See A.I.D. Handbook 3 for guidelines.)

N/A

FAA Sec. 611(e). If project is capital assistance (e.g., construction), and total U.S. assistance for it will exceed \$1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively?

N/A

FAA Sec. 209. Is project susceptible to execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs.

N/A

FAA Sec. 601(a). Information and conclusions on whether projects will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.

The Project will strengthen the private sector, thus encouraging goals (a), (b), (d), and (e).

FAA Sec. 601(b). Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

The Project will have an indirect effect because U.S. private firms will provide some technical assistance and commodities under the Project.

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ANNEX C
STATUTORY CHECKLIST

- 9. FAA Secs. 612(b), 616(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.

Jamaican entities will contribute at least 25% of cost in local currency or in-kind.
- 10. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

The U.S. does not own any excess Jamaican currency.
- 11. FY 1989 Appropriations Act Sec. 521. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?

NO. This Project will focus primarily on production of non-traditional exports e.g., food processing, horticulture, furniture, etc. A review of each proposed activity will ensure compliance with the FAA.
- 12. FY 1989 Appropriations Act Sec. 549. Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel?

NO. Jamaica is a recipient of Caribbean Basin Initiatives program and, thus, participates in Section 807 of the U.S. Tariff Schedule. A review of each proposed activity will ensure compliance with the FAA.
- 13. FAA Sec. 119(g)(4)-(6) & (10). Will the assistance (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other

(a) N/A

(b) N/A

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wildlife habitats; (c) support efforts to identify and survey ecosystems in recipient countries worthy of protection; or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas?

(c) NO.

(d) NO.

14. FAA Sec. 121(d). If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (either dollars or local currency generated therefrom)?

N/A

15. FY 1989 Appropriations Act. If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government?

N/A

16. FY 1989 Appropriations Act Sec. 538. If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.?

N/A

17. FY 1989 Appropriations Act Sec. 514. If funds are being obligated under an appropriation account to which they were not appropriated, has prior approval of the Appropriations Committees of Congress been obtained?

N/A

18. State Authorization Sec. 139 (as interpreted by conference report). Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision).

N/A

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FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

- a. FY 1989 Appropriations Act Sec. 548
(as interpreted by conference report for original enactment). If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training), are such activities (a) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States, where the export would lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S. exporters of a similar agricultural commodity; or (b) in support of research that is intended primarily to benefit U.S. producers?

(a) NO.

(b) NO.

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

- (a) The Project will increase participation of women in labor-intensive activities and promote small and micro entrepreneurs, particularly in rural areas, by increasing access to credit and TA;
- (b) This Project will not help develop cooperatives.
- (c) The Project supports self-help activities by encouraging the private sector to take a more active role in development;
- (d) Since roughly 46% of the labor force is comprised of women and over half of all small and micro businesses are women-owned, the Project will provide credit and TA to organizations that have targeted women as essential.

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

elements in increasing economic development;

(e) YES

c. FAA Secs. 101, 103A, 104, 105, 106, 120-211, PY 1989 Appropriations Act (Development Fund for Africa). Does the project fit the criteria for the source of funds (functional account) being used?

Yes.

d. FAA Sec. 107. Is emphasis placed on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?

Yes.

The Project components designed to increase productivity will use technology that is cost-effective and appropriate.

e. FAA Secs. 110, 124(d). Will the recipient country provide at least 25 percent of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)?

Yes.

Jamaican entities will contribute roughly 25% of project costs of public sector activities.

f. FAA Sec. 128(b). If the activity attempts to increase the institutional capabilities or private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority?

YES.

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9. FAA Sec. 201(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civil education and training in skills required for effective participation in governmental processes essential to self-government.

Project was jointly developed by USAID, JAMPRO, and the private sector. The four sector assessments were conducted by Jamaican consultants and some of the TA will be provided by Jamaicans.

A. FY 1989 Appropriations Act Sec. 516. Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions?

No.

Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations? No.

Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?

No.

i. FY 1989 Appropriations Act. Is the assistance being made available to any organization or program which has been determined to support or participate in the management of a program of coercive abortion or involuntary sterilization?

No.

If assistance is from the population functional account, are any of the funds to be made available to voluntary family planning projects which do not offer, either directly or through referral to or information about access to, a broad range of family planning methods and services? N/A.

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j. FAA Sec. 401(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

Yes.

k. FY 1989 Appropriations Act. What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, colleges and universities having a student body in which more than 40 percent of the students are Hispanic Americans, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)?

Approximately 20 percent of project funds are expected to be available for minorities and women for technical assistance and studies.

l. FAA Sec. 119(c). Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16? Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest extent feasible: (a) stress the importance of conserving and sustainably managing forest resources; (b) support activities which offer employment and income alternatives to those who otherwise would cause deforestation and loss of forests, and help countries identify and implement alternatives to colonizing forested areas; (c) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management; (d) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices; (e) help conserve forests which have not yet been degraded by helping to increase

Yes.

N/A

N/A

N/A

N/A

N/A

production on lands already cleared or degraded; (f) conserve forested watersheds and rehabilitate those which have been deforested; (g) support training, research, and other actions which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing; (h) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation; (i) conserve biological diversity in forest areas by supporting efforts to identify, establish, and maintain a representative network of protected tropical forest ecosystems on a worldwide basis, by making the establishment of protected areas a condition of support for activities involving forest clearance or degradation, and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate protected areas; (j) seek to increase the awareness of U.S. government agencies and other donors of the immediate and long-term value of tropical forests; and (k) utilize the resources and abilities of all relevant U.S. government agencies?

N/A

N/A

N/A

N/A

N/A

N/A

n. FAA Sec. 110(c)(13). If the assistance will support a program or project significantly affecting tropical forests (including projects involving the planting of exotic plant species), will the program or project (a) be based upon careful analysis of the alternatives available to achieve the best sustainable use of the land, and (b) take full account of the environmental impacts of the proposed activities on biological diversity?

N/A.

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- n. FAA Sec. 119(c)(14). Will assistance be used for (a) the procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems; or (b) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas? (a) NO. (b) NO.
- o. FAA Sec. 118(c)(15). Will assistance be used for (a) activities which would result in the conversion of forest lands to the rearing of livestock; (b) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undegraded forest lands; (c) the colonization of forest lands; or (d) the construction of dams or other water control structures which flood relatively undegraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development? (a) - (d) NO.
- p. FY 1989 Appropriations Act. If assistance will come from the Sub-Saharan Africa DA account, is it (a) to be used to help the poor majority in Sub-Saharan Africa through a process of long-term development and economic growth that is equitable, participatory, environmentally sustainable, and self-reliant; (b) being provided in accordance with the policies contained in section 102 of the FAA; N/A

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(c) being provided, when consistent with the objectives of such assistance, through African, United States and other PVOs that have demonstrated effectiveness in the promotion of local grassroots activities on behalf of long-term development in Sub-Saharan Africa;

(d) being used to help overcome shorter-term constraints to long-term development, to promote reform of sectoral economic policies, to support the critical sector priorities of agricultural production and natural resources, health, voluntary family planning services, education, and income generating opportunities, to bring about appropriate sectoral restructuring of the Sub-Saharan African economies, to support reform in public administration and finances and to establish a favorable environment for individual enterprise and self-sustaining development, and to take into account, in assisted policy reforms, the need to protect vulnerable groups;

(e) being used to increase agricultural production in ways that protect and restore the natural resource base, especially food production, to maintain and improve basic transportation and communication networks, to maintain and restore the renewable natural resource base in ways that increase agricultural production, to improve health conditions with special emphasis on meeting the health needs of mothers and children, including the establishment of self-sustaining primary health care systems that give priority to preventive care, to provide increased access to voluntary family planning services, to improve basic literacy and mathematics especially to those outside the formal educational system and to improve primary education, and to develop income-generating opportunities for the unemployed and underemployed in urban and rural areas?

9. FY 1989 Appropriations Act Sec. 515.

If deob/reob authority is sought to be exercised in the provision of DA assistance, are the funds being obligated for the same general purpose, and for countries within the same general region as originally obligated, and have the Appropriations Committees of both Houses of Congress been properly notified?

YES. Both committees were notified on 7/27/89.

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ANY REPLY OR SUBSEQUENT REFERENCE TO THIS COMMUNICATION SHOULD BE ADDRESSED TO DIRECTOR GENERAL, PLANNING INSTITUTE OF JAMAICA, 39-41 BARBADOS AVENUE.

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PLANNING INSTITUTE OF JAMAICA
TELEX 3529, PLANJAN JA
P.O. BOX 634,
KINGSTON,
JAMAICA.

August 16, 1989

Mr. William Joslin
Director
USAID
2 Oxford Road
Kingston 5.

Dear Mr. Joslin:

DATE RECEIVED 8/16	ACTION OFFICER OPED	INFO TO:	DIR ✓	ADDO	DIRM ✓	CHIEF	OFFER ✓	OFFER	OFFER	OCM	ADDO	L.P.	SCB	ACTION
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Re: Export Development and Investment Promotion Project

This letter constitutes a formal request from the Government of Jamaica (GOJ) to the United States International Development Agency (USAID) for a grant of Fourteen Million United States Dollars (US\$14 million) to provide support activities to increase exports and to diversity investments. We understand that this activity will assist the GOJ and the Jamaican private sector to resolve or ease the major constraints, as seen by Jamaican business people, to the expansion of exports and the diversification of investments. Illustrative of these constraints are:

Low Productivity:

- (1) Business Inefficiencies
- (2) Lack of Managers and Skilled Workers
- (3) Lack of Backward and Forward Linkages
- (4) Unreliable Supplies of Inputs

Financial Market Deficiencies:

- (1) High Cost of Credit
- (2) Lack of Term Financing
- (3) Lack of Equity Financing
- (4) Lack of Small Business Credit
- (5) Delays in Accessing Foreign Exchange

Lack of Business Infrastructure:

- (1) Weak Small Business Support Services
- (2) Inefficient State Owned Enterprises
- (3) Unclear Investment Incentives
- (4) Cumbersome Export/Import Procedures
- (5) Insufficient Factory Space.

We look forward to a positive response and working with you to implement this important activity.

Yours sincerely,

Omar Davies
Omar Davies
Director General

:vc

JAMAICA:EXPORT DEVELOPMENT AND INVESTMENT PROMOTION PROJECT

COST ESTIMATE

A. Low Productivity Group

1. Business Inefficiencies

2. Lack of Managers and Skilled Workers

a. Technical Assistance & Training - JAMPRO

(1) Technical assistance			
(a) Garments:	o (2 LT x 3 yrs x \$120,000/yr)	\$480,000	
(b) Agribusiness:	(2LT x 2 1/2 yrs x \$120,000/yr)	660,000	
(c) Furniture:	(1LT x 2 1/2 yrs x \$120,000/yr)	300,000	
(d) Others:	(2ST x 4 mos x \$15,000/mo)	120,000	
(2) Training for Trainers			
(a) Per diem:	(12 trainers x 4 sectors x 30 days x \$125/day)	180,000	
(3) Commodities			
(a) 3 vehicles x \$14,400/vehicle		42,000	
(b) Other equipment		16,000	
(4) Program Audits			
(2 audits x \$40,000/audit)		<u>80,000</u>	\$1,878,000

b. Technical Assistance - IESC

(\$100,00/yr x 3 years) 300,000

c. Trade Promotion - JAMPRO

(1) Trade shows	(\$20,000/show x 5 shows)	100,000	
(2) Trade fairs	(40 companies/yr x 4 years x \$1,500/trip)	<u>240,000</u>	340,000

3. Lack of Backward and Forward Linkages

4. Unreliable Supplies of Inputs

a. Feeder Industries

(1) Technical assistance:			
(LT: o (1 x 1 1/2 years x \$120,000/yr)		180,000	
(ST: 10 months x \$15,000/mo)		150,000	
(2) Training	(6 trainers x \$125 per diem x 30 days)	22,500	
(3) Commodities		87,000	
(4) Credit - NDF:	(\$150,000/yr x 2 years)	<u>300,000</u>	739,500

b. Investment Promotion		
(1) Prospectuses (\$1,000/prospectus x 6/yr x 3 yrs)	18,000	
(2) Trips to U.S.: (6 trips/yr x 3 yrs x 10 days x \$125/day)	22,500	
(3) Feasibility studies: (3/yr x 3 yrs x \$20,000/feas. study)	<u>180,000</u>	220,500
 B. <u>Financial Market Deficiencies Group</u>		
1. Delays in Accessing Foreign Exchange		
a. Policy Studies (2 studies x \$20,000/study)		40,000
2. High Cost of Credit and Term Financing		
a. Policy Studies (2 studies x \$20,000/study)		40,000
3. Lack of Small Business Credit		
a. Credit - NDF (\$200,000/yr x 3 years)		600,000
 C. <u>Lack of Business Infrastructure Group</u>		
1. Weak Business Support Services		
a. Small Business Development		
(1) Business plans	50,000	
(2) Salaries (2 persons x 2 yrs x \$40,000/yr)	160,000	
(3) Technical assistance (LT: 1 x 1 yrs x \$120,000/yr) (ST: 12 months x \$15,000/mo)	120,000 180,000	
(4) Commodities and publications	50,000	
(5) Training (OJT: 30 trainers x 20 days x \$125/day)	75,000	
(6) Marketing	<u>50,000</u>	685,000

b. Improvement of Private Sector Organizations		
(1) Business plans (2 plans x \$40,000/plan)	80,000	
(2) Technical Assistance (2 ST x 8 months x \$15,000/mo)	240,000	
(3) Studies (2 studies x \$40,000/study)	80,000	
(4) Commodities	75,000	
(5) Training (OJT:10 trainers x 2 organize. x 20 days x \$125/day)	50,000	
(6) Marketing	<u>50,000</u>	575,000
c. Improvement of Public Sector Organizations		
(1) Studies (2 studies x \$40,000/study)	80,000	
(2) Technical Assistance (LT: 1 LT x 1 yrs x \$120,000)	120,000	
(ST: 12 mos x \$15,000/mo)	180,000	
(3) Training (30 persons x 20 days x \$125/day)	75,000	
(4) Commodities (2 organizations x \$40,000/organ)	<u>80,000</u>	535,000
2. Inefficient State Owned Enterprises		
a. Privatization Program		
(1) Salaries (1 person x 2 yrs x \$40,000/yr)	80,000	
(2) Training (4 persons x \$3,000/seminar)	12,000	
(3) Technical assistance	<u>300,000</u>	392,000
3. Unclear Investment Incentives		
a. Operations Study (1 study included in government group)		
4. Cumbersome Export/Import Procedures		
a. Operations Study (1 study included in government group)		
5. Inadequate Transportation		
a. Policy Study (1 study x \$40,000/study)		
		40,000

D. Project Implementation

1. Technical assistance (LT PSC economist: 1 x yrs x \$120,000/yr)	120,000	
2. MIS/Communications	<u>60,000</u>	180,000

E. Evaluation and Audit

1. Evaluation	50,000	
2. Audit	<u>75,000</u>	125,000

F. Contingency/Inflation

310,000

TOTAL

\$7,000,000

Standard Cost Factors:

- (1) Technical Assistance
 - Long Term (LT) at \$120,000/yr
 - Short Term (ST) at \$15,000/mo
- (2) Per Diem at \$125/day
- (3) Seminars at \$3,000/seminar per participant

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TAGS:

SUBJECT: EXPORT DEVELOPMENT AND INVESTMENT PROMOTION
PROJECT (EDIP) PP (532-0135)

1. SUMMARY: THE DAEC FOR THE EDIP PROJECT PAPER WAS HELD ON 9/23-29/99. THE PROJECT PROPOSED SEVERAL INNOVATIVE INITIATIVES AS WELL AS FOLLOW-ON FUNDING FOR PROVEN ACTIVITIES TO SUPPORT PRIVATE SECTOR DEVELOPMENT, PARTICULARLY IN THE EXPORT SECTOR. IT WAS CONCLUDED THAT THE PP AS PRESENTED REQUIRED ADDITIONAL ANALYSES TO VALIDATE THE PP'S ASSERTIONS OF PROJECT FEASIBILITY PRIOR TO AUTHORIZATION. IT ALSO WAS DECIDED THAT THE AMOUNT OF THE INITIAL AUTHORIZATION AND LCP WOULD BE REDUCED TO BETTER REFLECT THE PILOT NATURE OF SEVERAL OF THE ACTIVITIES AND THE RECOGNIZED PROBABILITY THAT ACTIVITIES UNDER THE PROPOSED PROJECT WOULD HAVE TO BE ADJUSTED TO REFLECT INITIAL IMPLEMENTATION EXPERIENCE. THE LAC BUREAU DELEGATES AUTHORITY TO THE FIELD TO APPROVE THE PP SUBJECT TO THE MODIFICATIONS OUTLINED IN PARAGRAPH 3 BELOW. END SUMMARY.

2. POINTS OF DISCUSSION: AT THE ISSUES MEETING HELD ON 9/24/99 AGREEMENT WAS REACHED ON THE FOLLOWING POINTS:

A) PROBLEM DEFINITION - IN RESPONSE TO A QUESTION SEEKING CLARIFICATION OF THE PROJECT'S PURPOSE, MISSION REPRESENTATIVES CONFIRMED THAT IT WAS TO INCREASE EXPORTS AND DIVERSIFY INVESTMENTS. MISSION REPRESENTATIVES AGREED THAT NON-TRADITIONAL EXPORT GROWTH HAD BEEN SIGNIFICANT BUT THAT THERE WAS A KNOWN POTENTIAL FOR SUBSTANTIALLY INCREASED EXPORTS IF CONSTRAINTS COULD BE REMOVED. SMALL BUSINESSES ARE THOUGHT TO SIGNIFICANTLY CONTRIBUTE TO EXPORTS AND REPRESENT A DYNAMIC SOURCE OF ADDITIONAL EMPLOYMENT GENERATION.

B) INSTITUTIONAL LINKAGE - DURING INTENSIVE MISSION REVIEW, THE NEED TO TRAIN SKILLED AND SEMI-SKILLED WORKERS WAS EXAMINED. THE MISSION DISCOVERED NO NEED FOR THIS TYPE OF TRAINING UNDER THIS PROJECT. TRAINING PROGRAMS IN JAMAICA PROVIDE SUCH TRAINING, SOME OF WHICH DO NOT MEET THE REQUIREMENTS OF THE LOCAL JOB MARKET.

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FOR MANY SKILLS, FIRMS IN THE INDUSTRY PREFER TO TRAIN THEIR OWN EMPLOYEES.

C) CAPABILITY/CAPACITY - BOTH JAMPRO AND NDF HAVE UNDERGONE RECENT FINANCIAL ASSESSMENTS BY CPA FIRMS. MISSION REPRESENTATIVES STATED THAT THEY HAVE HAD YEARS OF EXPERIENCE WITH BOTH. THEY BELIEVED THAT USAID'S EXPERIENCE CONFIRMS AND THE RECENT ASSESSMENTS INDICATE THAT BOTH ORGANIZATIONS HAVE THE CAPABILITY TO IMPLEMENT THE PLANNED PROJECT. THE QUESTION OF THE CAPABILITY AND CAPACITY OF THE IMPLEMENTING ORGANIZATIONS WAS FURTHER CONSIDERED AT THE DATC. THE RESULTING DECISION AND GUIDANCE ARE NOTED IN PARAGRAPH 3 BELOW.

D) JAMPRO INVOLVEMENT IN AREAS MORE APPROPRIATE FOR THE PRIVATE SECTOR - A MAJOR AREA OF CONCERN AT THE REVIEW WAS THE EXPORT PROMOTION ACTIVITY. MINIMAL FUNDS WILL GO TO JAMPRO FOR THIS. USAID'S POLICY DIALOGUE ENCOURAGES THE PRIVATIZATION OF JAMPRO'S ACTIVITIES. JAMPRO ITSELF, WITH ITS PRIVATE SECTOR BOARD CHAIRMAN AND PREDOMINANT PRIVATE SECTOR BOARD, IS A CONSOLIDATION OF THREE GOVERNMENT AGENCIES, WHICH MEASURABLY INCREASED THE EFFICIENCY AND REDUCED THE COST OF JAMPRO ACTIVITIES.

E) SELF-SUSTAINABILITY - THE QUESTION WAS RAISED ON WHETHER IT WAS REALISTIC TO EXPECT THAT SMALL BUSINESS ORGANIZATIONS WHICH WOULD PROVIDE THE SERVICES INTENDED COULD EVER BE SELF-SUSTAINING. IT WAS POINTED OUT THAT ALTHOUGH SELF-SUSTAINING ORGANIZATIONS OF THIS TYPE ARE NOT THE NORM IN LDC'S, MANY SUCCESSFUL EXAMPLES EXIST

ELSEWHERE PROVISION OF A PLAN TO ATTAIN SELF-SUFFICIENCY BY EACH ORGANIZATION SELECTED TO PARTICIPATE IS A PREREQUISITE TO PROJECT FINANCING. THESE PLANS ARE TO BE CAREFULLY REVIEWED AT THE MISSION.

F) PROMOTION TRIPS (APPROPRIATENESS OF COSPARING) - MISSION REPRESENTATIVES CONFIRMED THAT INVESTMENT PROMOTION TRIPS WILL ONLY BE MADE TO EVENTS SUCH AS TRADE FAIRS. ALTHOUGH THE PROJECT WILL FUND PER DIEM, PRIVATE FIRMS WILL PAY FOR TRAVEL AND OTHER COSTS ASSOCIATED WITH TRIPS.

G) SEC-TYPE BODY - IN RESPONSE TO A QUESTION ON WHETHER THE PROJECT WOULD PAY FOR SALARIES OF PROFESSIONALS AND RECURRENT COSTS FOR THIS ORGANIZATION, MISSION REPRESENTATIVES SAID THAT PLANS ARE TO PAY ONLY FOR THE SALARIES OF TWO PROFESSIONALS FOR THE FIRST TWO YEARS OF THE PROJECT. THIS COMPONENT WAS EXAMINED FURTHER DURING THE DATC (SEE PARA 3F(4) BELOW).

H) CREDIT (STATUS OF NDF AND A.I.D.'S ROLE IN
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SUB-LOANS) - NDF, WHICH WILL ON-LEND THE FUNDS TO DESERVING FIRMS, IS AN ESTABLISHED ORGANIZATION THAT HAS RECEIVED PREVIOUS GRANTS FROM A.I.D. PROCEDURES AND ACCOUNTABILITY ALREADY HAVE BEEN ESTABLISHED. MISSION REPRESENTATIVES CONFIRMED THAT USAID/JAMAICA WILL NOT APPROVE EACH SUB-LOAN.

3. DAEC REVIEW: TWO CATEGORIES OF ISSUES WERE RAISED DURING THE DAEC: 1) THE ADEQUACY OF THE VARIOUS TECHNICAL ANALYSES UNDERLYING THE PROJECT DESIGN AND REQUESTED AUTHORIZATION AND 2) SPECIFIC ISSUES RELATED TO INDIVIDUAL PROJECT COMPONENTS. IT WAS CONCLUDED THAT THE PP DID NOT PROVIDE AN ADEQUATE BASIS FOR PROJECT AUTHORIZATION AND WOULD REQUIRE MODIFICATION. THE FOLLOWING OUTLINES THE AREAS IN WHICH MODIFICATIONS TO THE PP ARE REQUIRED.

A. PROJECT ANALYSES:

1) FINANCIAL ANALYSIS - THE PP'S FINANCIAL ANALYSIS ASSERTS THAT THE PROJECT IS NOT SUSCEPTIBLE TO TRADITIONAL FINANCIAL ANALYSIS. WHILE THIS CONCLUSION MAY BE REASONABLE FOR SOME PROJECT ACTIVITIES (SUCH AS SPECIFIC FEASIBILITY STUDIES), OTHER COMPONENTS CLEARLY REQUIRE SEPARATE ANALYSIS, IN PART TO REACH CONCLUSIONS ABOUT SUSTAINABILITY. THIS IS TRUE PARTICULARLY FOR THOSE ACTIVITIES TO BE IMPLEMENTED BY EXISTING

INSTITUTIONS WHICH ARE PLANNED TO BE EXPANDED UNDER THE PROJECT, E.G., THE NATIONAL DEVELOPMENT FOUNDATION (NDF) AND JAMPRO. THE PP'S CONCLUSION THAT THE NDF CAN SUSTAIN SMALL BUSINESS LENDING FOLLOWING PROJECT COMPLETION WITH THE CAPITAL PROVIDED BY THE A.I.D. GRANT IS UNSUPPORTED. IN THE CASE OF JAMPRO, THE RECURRENT COSTS OF ITS OPERATIONS NOW AND AS A RESULT OF THE EXPANSION UNDER THE PROJECT ARE UNSATED, MAKING IT DIFFICULT FOR THE MISSION OR THE GOJ TO CONCLUDE THAT ITS FUTURE COSTS CAN BE OR SHOULD BE ABSORBED BY THE GOJ.

IN THE REVISED PP, THE MISSION SHOULD DISAGGREGATE THE FINANCIAL ANALYSIS SECTION OF THE PP, AND UNDERTAKE THE APPROPRIATE ANALYSIS FOR THOSE ACTIVITIES WHICH NORMALLY REQUIRE THIS ANALYSIS. FOR EXAMPLE, IN THE CASE OF THE NDF, A CASH FLOW PROJECTION SHOULD BE PREPARED, DEMONSTRATING THAT THE NDF CAN CONTINUE ITS LENDING OPERATIONS IN THE FUTURE WITHOUT ADDITIONAL A.I.D. ASSISTANCE.

2) INSTITUTIONAL ANALYSIS - THE JANUARY 1979 PID APPROVAL CABLE ASKED THE MISSION TO REVIEW AND ADDRESS THE ABSORPTIVE CAPACITIES AND CAPABILITIES OF THE VARIOUS IMPLEMENTING AGENCIES. NO INSTITUTIONAL ANALYSIS IS PROVIDED IN THE PP, THEREFORE, IT IS DIFFICULT TO DETERMINE WHETHER THE MOST EFFECTIVE AND EFFICIENT ALTERNATIVES FOR ASSIGNING IMPLEMENTATION RESPONSIBILITIES TO JAMPRO, NDF AND USAID/JAMAICA HAVE BEEN EXAMINED. AN ASSESSMENT OF ANY ADDITIONALLY

IDENTIFIED IMPLEMENTING AGENCY (INCLUDING NIPJ) SHOULD BE INCLUDED.

3) PROJECT MANAGEMENT/MONITORING - A CLEARER PRESENTATION OF THE VARIOUS ROLES AND RESPONSIBILITIES OF EACH IMPLEMENTING AGENCY (FOR EACH COMPONENT) SHOULD BE PROVIDED. FOR INSTANCE, WHAT IS THE MISSION'S RELATIONSHIP WITH JAMPRO? HOW WILL THE PROJECT COMMITTEE OPERATE? WHAT ARE PROGRAM AUDITS AND THEIR ROLE IN PROJECT MANAGEMENT AND EVALUATION? IT WOULD BE USEFUL TO PROVIDE A MATRIX OF THE CATEGORIES OF GRANTS/SUBGRANTS AND CONTRACTS BY PROJECT COMPONENT TO INDICATE THE TYPE OF AGREEMENT/SUBAGREEMENT AND PROPOSED PARTIES TO THE AGREEMENT(S).

4) EVALUATION PLAN - MISSION REPRESENTATIVES CHARACTERIZED THE PROJECT AS BEING QUOTE MARKET-DRIVEN UNQUOTE, ALLOWING SUFFICIENT FLEXIBILITY AND LACK OF UP-FRONT SPECIFICITY TO PERMIT THE PROJECT ACTIVITIES TO

RESPOND TO OPPORTUNITIES OR DROP COMPONENTS WHICH FALTER. KEY TO THIS APPROACH TO DESIGN IS THE PLANNED PROJECT MANAGEMENT INFORMATION SYSTEM (MIS). WHILE THE PP RECOGNIZES ITS IMPORTANCE, NO SYSTEM WAS DESCRIBED, OR APPROACH TO PUTTING IT IN PLACE. THE REVISED PP SHOULD CONTAIN THIS PLAN, INCLUDING A DESCRIPTION OF THE MANAGEMENT INFORMATION SYSTEM, AND THE ROLE OF PROGRAM AUDITS. THE RELATIONSHIP BETWEEN THE MIS AND THE DATA NEEDED TO ASSESS OUTWARD PURPOSE-LEVEL ACHIEVEMENT ALSO SHOULD BE DESCRIBED.

B. ISSUES BY ACTIVITY:

1) IESC - A NUMBER OF QUESTIONS REMAIN UNANSWERED UNDER THIS COMPONENT. HOW WILL MISSION MANAGE/MONITOR THIS ELEMENT? WHO WILL APPROVE SUB GRANTS? THE MISSION MAY WISH TO CONSIDER INCLUDING IFSC AS A SEPARATE GRANT COMPONENT UNLESS THE PLAN IS FOR JAMPRO TO SIGN THE GRAN(ASSUMING THAT JAMPRO WILL HAVE A SUBSTANTIVE ROLE

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IN MANAGING THE IESC COMPONENT). THE CONCEPT OF COST SHARING SHOULD BE MORE CLEARLY DEFINED. A GENERAL STATEMENT OF IESC'S CURRENT APPROACH AND IN PARTICULAR THOSE ELEMENTS WHICH WILL BE INCORPORATED UNDER THE PROPOSED GRANT SHOULD BE INCLUDED (E.G., MINIMUM CASH CONTRIBUTION; GRADUATED SCALE OF INCREASED USER COST). SPECIFIC SELECTION CRITERIA SHOULD BE OUTLINED IN THE REVISED PP, OR DEFINED IN THE AGREEMENT WITH IESC.

2) FEEDER INDUSTRY - AS A PILOT EFFORT IN A NEW AREA, THE BUREAU RECOGNIZES THAT A DETAILED DESCRIPTION OF THIS COMPONENT IS NOT REASONABLE AT THIS TIME. HOWEVER, THE PP SHOULD MORE CAREFULLY OUTLINE THE SELECTION PROCESS FOR THE FIRST OF THE FEEDER INDUSTRY ACTIVITIES, INCLUDING THE ROLES OF JAMPRO AND THE MISSION, ANTICIPATED SELECTION CRITERIA (PARTICULARLY THE PRINCIPLE OF COST SHARING), HOW THE GRANT WILL BE MONITORED AND BY WHOM, HOW THE OBJECTIVE OF ACHIEVING A SPREAD EFFECT WILL BE IMPLEMENTED AND THE ROLE OF THE NDF LOAN FUND. THOSE SPECIFIC AREAS TO BE FUNDED WITH A.I.D. GRANT FUNDS SHOULD BE DEFINED CONSISTENT WITH A.I.D. POLICY. THE INITIAL PROJECT AUTHORIZATION SHOULD LIMIT THE PROJECT TO FUNDING ONE COMPETITIVELY SELECTED FEEDER INDUSTRY ACTIVITY.

3) INVESTMENT PROMOTION - THIS COMPONENT NEEDS TO BE DEVELOPED FURTHER. WHAT IS THE CRITERIA (IN GENERAL) FOR SELECTING JOINVENTURE PARTNERS? WHAT HAS BEEN THE JAMAICAN JOINT VENTURE EXPERIENCE IN THE PAST? WHAT IS

MISSION'S APPROVAL ROLE (IF ANY)?

4) STOCK EXCHANGE - UNTIL THERE IS A POLICY AND POLITICAL DECISION TO OPEN ACCESS TO THE EXCHANGE, CONSIDERATION OF POSSIBLE ASSISTANCE TO THE STOCK EXCHANGE IS PREMATURE. THE REVISED PP, THEREFORE, SHOULD BE LIMITED TO CONSIDERATION OF ASSISTANCE TO HELP GUIDE THE GOJ IN THE OPTIONS TO BE CONSIDERED FOR RESTRUCTURING THE EXCHANGE, DEFINING AND AUTHORIZING ASSISTANCE TO IMPLEMENT CHANGES IN THE STOCK EXCHANGE SHOULD BE LEFT TO A FUTURE AMENDMENT OF THIS PROJECT OR A NEW PROJECT.

5) OTHER COMPONENTS - FOR THE ACTIVITIES INVOLVING SMALL BUSINESS SUPPORT, PRIVATE SECTOR ORGANIZATIONS, AND PUBLIC SECTOR ORGANIZATIONS, THE FOLLOWING AREAS SHOULD BE INCLUDED IN THE REVISED PP: THE SELECTION CRITERIA TO BE FOLLOWED; A DESCRIPTION OF THE PROCESS FOR SELECTION AND IMPLEMENTATION MONITORING (WHO WILL PARTICIPATE, WHO WILL MAKE THE FINAL DECISION ON SELECTION, HOW WILL THE PRINCIPLE OF COST BE APPLIED TO THE PRIVATE SECTOR ENTITIES). THESE ACTIVITIES, PARTICULARLY THOSE INVOLVING THE PRIVATE SECTOR, ALSO ARE PILOT INITIATIVES WHOSE POTENTIAL FOR CONTRIBUTING TO THE PROJECT PURPOSE REMAINS TO BE DEMONSTRATED. FOR THAT REASON, THE REVISED PP SHOULD LIMIT THE FUNDING AUTHORIZED FOR THOSE ACTIVITIES PENDING DEMONSTRATION OF

THEIR IMPORTANCE AND VIABILITY.

5) LOGICAL FRAMEWORK - A NUMBER OF OUTPUTS PRESENTED IN THE LOG FRAME MATRIX DO NOT SEEM TO ADDRESS DIRECTLY AND SPECIFICALLY THE STATED PURPOSE OF INCREASING EXPORTS AND DIVERSIFYING INVESTMENTS. FOR EXAMPLE, HOW DOES THE REDUCTION IN THE GOV'S BUDGET DEFICIT DIRECTLY ADDRESS THE PROJECT'S PURPOSE? THE RELATIONSHIP OF THIS OUTPUT TO THE PURPOSE IS DIFFICULT TO DETERMINE SINCE IT WAS NOT DISCUSSED IN THE NARRATIVE. THE PP SUGGESTS AN INTERRELATED SET OF ACTIVITIES TO ADDRESS AN INTERRELATED SET OF CONSTRAINTS. THE OUTPUTS OF THE LOG FRAME SHOULD, THEREFORE, BE REFORMULATED TO FORM AN INTEGRATED SET OF ACTIVITIES THAT ARE NECESSARY AND SUFFICIENT TO ACHIEVE THE STATED PURPOSE OF THE REVISED PROJECT PAPER. ALL OUTPUTS SHOULD BE DISCUSSED IN THE NARRATIVE OF THE REVISED PP.

4. PROJECT DESIGN PARAMETERS - ACTIVITIES ARE TO BE SCALED BACK TO AN LOP OF 3 YEARS WITH A COMMENSURATE TOTAL FUNDING OF NE DOLS 7 MILLION. THE DAEC ALSO

AGREED TO THE MISSION'S REPROGRAMMING OF DOLS 2 MILLION INCLUDED IN ITS CURRENT OYB FOR THE EDIP PROJECT AS FOLLOWS:

A) DOLS 1 MILLION WORTH OF PROPOSED ACTIVITIES, THAT WOULD HAVE BEEN FINANCED UNDER THIS PROJECT THIS FISCAL YEAR, WILL BE FINANCED INSTEAD UNDER AN AMENDMENT TO THE TECHNICAL CONSULTATIONS AND TRAINING GRANT (532-2079) PROJECT. THESE ACTIVITIES INCLUDE:

(1) THE COMBINATION OF TECHNICAL ASSISTANCE PROVIDED BY THE INTERNATIONAL EXECUTIVE SERVICE CORPS (IESC) AND JAMAICA PROMOTIONS, LTD. (JAMPPO) TO ASSIST SMALL BUSINESS AND EXPORT ENTERPRISES;

(2) FUNDING OF LOCAL TRADE FAIRS, INCLUDING JAMAICA'S REGIONAL QUOTE FASHION CARNIVAL UNQUOTE AND

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PARTICIPATION IN U.S. TRADE SHOWS, PRIMARILY BY
INDIVIDUALS OF NEW EXPORT ENTERPRISES:

(3) FINANCING OF POLICY AND OPERATIONAL STUDIES TO
ADDRESS THE JAMAICAN FINANCIAL MARKET AND STATE-OWNED
ENTERPRISES DEFICIENCIES;

(4) FINANCING OF PROFESSIONAL SERVICES TO SUPPORT THE
GOJ'S EXPANSION OF PREVIOUSLY SUCCESSFUL PRIVATIZATION
EFFORTS; AND

(5) FUNDING FOR PRIVATE ORGANIZATIONS LIKE THE TOURISM
ACTION PLAN (TAP) WHICH SUPPORT BUSINESS DEVELOPMENT; AND

B) THE SECOND DOLS 1 MILLION WILL BE USED TO FORWARD
FUND AND REDUCE THE MORTGAGE UNDER THE AGRICULTURAL
EXPORT SERVICES (532-0155) PROJECT. BAKER

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NATIONAL DEVELOPMENT FOUNDATION OF JAMAICA

OPERATIONAL REVIEW FOR STRATEGIC PLANNING

EXECUTIVE SUMMARY

1. INTRODUCTION

In February 1988, Price Waterhouse was requested to conduct a review of the National Development Foundation of Jamaica (NDF) in particular, its loan administration and TAT programme operations while examining its structure, staffing systems and procedures so as to assist NDF in developing a plan to achieve self-sufficiency within five years.

Our examination was phased over the period February to June 1988 as follows:

- Phase I - Business Strategy Confirmation
- Phase II - Operations Review
- Phase III - Financial Review and Modelling
- Phase IV - Evaluation of the Organisation Structure and Staffing.

The final phase of the study will be reflected in documented job descriptions of the key positions in the organisation structure recommended by us and agreed with NDF together with documented systems and procedures for loan administration and TAT operations.

The accompanying report is presented in three volumes:

- Volume I - Operations Review
- Volume II - Financial Review and Modelling
- Volume III - Evaluation of the Organisation Structure and Staffing.

Summaries of our observations and recommendations in each phase are highlighted in each volume. This Executive Summary addresses those issues which will have a significant impact on NDF's efforts to achieve self-sufficiency over the next five years.

2. CRITICAL SUCCESS FACTORS

The objective of the first phase of the assignment was the confirmation of the business strategy and identification of the Critical Success Factors (CSF's) for the NDF. CSF's are those few things which must be done well for the enterprise to gain an edge in its marketplace. These were identified as:

- the ability to generate a steady flow of financial resources from loan repayments, grant funds, soft loans, etc.
- prudence in lending and balancing the loan portfolio to achieve profitability
- the ability to attract and retain committed, competent top managers and middle level support staff
- the ability to maintain the required frequency and quality of contact with the client population
- the timely production and distribution of management information.

3. BANKING VS TAT OPERATIONS

One of the major outcomes of this study was a precise definition of Banking as against TAT operations. The areas of difficulty ultimately resolved were the processes of:

- Loan Origination and
- Counselling/Monitoring

Loan origination is carried out by the Project Development Officers who are part of the banking operations. However, our examination revealed that almost 50% of the time spent in processing a loan application involved the provision of "project development" assistance as opposed to application review procedures. As it is conceded that NDF's clientele will always be likely to require such assistance, we recommended that such clients be referred to

1. other organisations who may provide the service free of charge or,
2. the TAT division which will be organised to offer this type of consultancy service for a fee.

Counselling/Monitoring was identified as a TAT process but no clear distinction was drawn between the two activities primarily because they were carried out by one category of staff - Business Counsellors. To achieve greater focus in the work of the Business Counsellors and to ensure that the clients perceived them as providers of management services, we recommended that the Monitoring process be reclassified as a banking process and be defined as "the periodic examination of the client's financial statements and financial performance to ensure that the capacity to service the loan is maintained."

4. USER FEES

Based on the unit costs computed and other analyses carried out, the following fee structure was proposed:

Project Development - if performed by the Project Development Officers, to be charged on the basis of 2% of loan requested. This is expected to recover about 50% of the actual cost.

Legal and Insurance - to remain as is i.e.
 Legal - 2% of loan amount
 Insurance - 3% of loan balance at start of insurance year.

Counselling Service - to be charged at \$30 per month on the basis of one visit being made per month. To be recovered by annual levy of \$360 repayable in 12 monthly payments with regular loan repayments etc.

Consulting Service - each case to be assessed on client's ability to pay. Rates should be about \$38 per hour.

Seminars, Workshop and Courses - to be costed individually with the objective being to recover 100% of cost. A guide for costing staff effort is:

\$25 per hour - direct expense
 \$38 per hour - fully recovered.

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5. EFFECT ON BANKING PROFITABILITY OF SELECTED VARIABLES

Preliminary Observations

Banking profitability in NDF is affected by the relationship of the initial set-up costs to the recurrent servicing costs. Set-up costs include the following processes costed using a) an \$18,000 loan repayable over 3 years at 19.45% and b) Kingston's activity levels for 1988:

Origination and approval	\$798
Disbursement	643
Initial Group Training	<u>72</u>
	<u>\$1,513</u>

Servicing costs for the same loan comprise:

	Year 1	Year 2	Year 3
Recovery and arrears	714	428	143
Cost of funds	623	374	125
Share of corporate administration	<u>700</u>	<u>420</u>	<u>140</u>
	<u>2,037</u>	<u>1,222</u>	<u>408</u>

Overall profitability is shown below:

	Year 2	Year 2	Year 3	Total
Interest earned	<u>2,918</u>	<u>1,751</u>	<u>584</u>	<u>5,253</u>
Initial costs	1,513			1,513
Servicing costs	<u>2,037</u>	<u>1,222</u>	<u>408</u>	<u>3,667</u>
	3,550	1,222	408	5,180
Surplus/(Deficit)	<u>(632)</u>	<u>529</u>	<u>176</u>	<u>73</u>
	=====	=====	===	=====

It should be noted that the high set-up costs are after reducing the PDO's involvement in the loan origination process by almost 50% following our recommendation to pass "project development" to either an external agency or a reorganised TAT.

Using that cost structure as the basis, we analysed the effect on profitability of changes to:

Repayment Period
Interest Rates
Average Loan Disbursed
Portfolio Size.

\$B'

Repayment Period - A 4 year loan is more profitable than a 3 year loan because the significant set-up costs are recovered over a longer period of interest generation. However, the cost of funds is likely to increase over the longer term as there are less reflows to finance new loans and external financing would be required to meet the deficiency.

Interest Rates - Average interest rates for the portfolio at various points in time are shown below:

At 31 December 1987	18.50%
Budgeted by NDF for 1988	19.45%
Break-even on banking operations based on our projections for 1988	24.75%

However, because the average interest rate earned on the portfolio at 31 December 1987 was 18.50%, all new loans (excepting agricultural loans) disbursed in 1988 would have to earn interest at 32% per annum to achieve the break-even position for the entire operations.

Average Loan Disbursed - The size of the average loan budgeted for 1988 is \$18,000. However, our computations show that to achieve break-even on each new loan to be disbursed in 1988 the average loan size for the organisation taken as a whole should be:

	INTEREST @ 19.45%	RATE @ 24%
REPAYMENT PERIOD		
36 months	28,000	10,000
48 months	12,500	6,000

Portfolio Size - The average portfolio budgeted for 1988 for the total banking operations is \$14.494m. Based on our computations of break-even at interest rates of 19.45% and 24%, the portfolio size should be \$18.445m and \$14.949m respectively.

CONCLUSIONS

The above analyses compute break-even positions without adjusting for one of the most important and variable factors -NDF's market place. With this in mind, we have recommended that NDF seek to achieve the following:

Average loan size	\$20,000
Average interest rate	19% - 24%
Average repayment period	3 years
Portfolio size by 1990	\$29m

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6. ORGANISATION AND STAFFING

The major observations and recommendations made are summarised below:

- (i) The position of Director of Banking Operations should be established to manage the Foundation's loan portfolio and co-ordinate the lending programmes in all branches.
- (ii) The Kingston lending operations should be managed as a separate branch. NDF needs to appoint a Kingston Branch Manager.
- (iii) A Business Counselling Co-ordinator should be appointed to develop and co-ordinate the counselling/consulting activities throughout the branches.
- (iv) Except as above, the staffing levels appear adequate for the banking and TAT operations for 1988.

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TECHNICAL ANALYSIS

The technical analysis is contained in four assessments which are available in project files. These assessments are:

Paul Chen-Young & Associates Ltd., An Assessment of Constraints in the Export Marketing Process in Jamaica, May 30, 1989

Private Sector Organization of Jamaica, Jamaica's Financial Market - The Way Forward, January 1989

Tespe-Johnson Ltd. and Associates, An Assessment of Feeder Industries and Their Promotion in Jamaica, March 12, 1989

Trevor Hamilton and Associates, Assessment of the Jamaican Small Business Environment, April 3, 1989

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Economic Analysis

1. Background: The Manufacturing Sector

The project goal is to stimulate economic growth, resulting in increased levels of employment and income. Consistent with Jamaica's outward-looking export-oriented strategy, the project seeks to achieve these ends through the removal of constraints acting to limit the potential growth of the private sector. The focus will be on the manufacturing sector and the promotion of manufactured good exports (a companion project, Agricultural Export Services Development, aimed at the increased growth of agricultural exports, is in process of development).

A basic project theme is the existence of synergy among project elements; e.g., improvements in productivity cannot be effective without greater access to credit, nor can production be maximized without better understanding of export marketing. These relationships provide the rationale for a project that proposes to deal simultaneously with a wide range of restraints to output and export growth. The close relationship between the trends of manufacturing output and manufactured goods exports - two key project objectives - is shown in Table 1 covering the period 1983-88:

Table 1

Manufacturing Production and Exports 1983-88

	<u>Index of Mfg. Prod.</u>		<u>Non-Traditional Mfg. Exports b/</u>	
	<u>1983=100^{a/}</u>	<u>Yr. to Yr. % Inc.</u>	<u>US\$ Millions</u>	<u>Yr. to Yr. % Inc.</u>
1983	100.0		139.8	
1984	98.8	-1.2	137.0	-2.0
1985	101.5	2.7	141.5	3.3
1986	108.3	6.7	147.4	4.2
1987	118.7	9.6	208.7	41.6
1988	118.8	0.1	225.5	8.0

Notes: (a) Index of manufacturing production. Does not coincide precisely with gross domestic output (value added) data appearing elsewhere in this section.

(b) Excludes sugar and rum.

Sources: Economic and Social Survey of Jamaica, PIOJ.

2. Productivity in Manufacturing

One of the three constraint areas that the project seeks to address is the perceived low level of business efficiency, or low productivity, in manufacturing. The available statistical data appear to support the perception.

Notwithstanding the impressive output expansion of 1985-87, those years showed a continuation of the decline in manufacturing output per worker underway throughout the 1980's. Whereas output rose by 3.5 percent per annum during 1983-88, employment in manufacturing rose at a rate of 7.3 percent. Thus output per worker i.e., productivity, declined at an annual rate of 3.5 percent. The decline in productivity is generally ascribed to the ongoing shift to smaller-scale, labor intensive manufacturing, such as apparel. However, based upon data from large and small firm employment during this period it is not possible to produce a model based upon the employment and output data, and reasonable assumptions with regard to productivity decline in large firms, that would show more than a minimal increase in productivity in small firms during this period (See Annex I-2).

3. Sectoral Emphasis

Within the manufacturing sector as a whole, the project will place special emphasis on assistance to small-scale enterprises, and to five priority sectors: apparel, processed foods, electronics, furniture and horticulture (ornamental plants and flowers).

a. Small vs. Large Firms

As discussed in Section IA, the available evidence indicates that economic sectors dominated by small firms have experienced more rapid growth than sectors dominated by large firms. Further, it is probably more than coincidence that employment in small firms rose much faster than employment in large firms during 1985-88 (13.4 vs. 8.8 percent per annum, respectively; see further Annex I-2), a period of accelerated growth in manufacturing.

b. The Five Priority Sectors

Of the five priority areas identified during project development, apparel is the most important, having enjoyed spectacular growth during 1985-87, before slowing in 1988. Processed foods are the second most significant in terms of output and exports, though they have yet to realize their growth potential. Furniture exports appear to have taken off, albeit from a low base, in 1988; and electronics and horticulture are believed to have excellent growth potential. (See Annex I-2, Table A-4 for exports by product category). The manufacturing output data are not organized in such a way as to enable a clear disaggregation as between the five priority groups and all other non-traditional manufacturing, but an approximate measurement, through 1987, is possible. Based on value added data and using groupings roughly equivalent to the five priority areas, Table 2 compares the trends in value added and exports for the five priority areas (or its proxy in the case of output), and separately for all other non-traditional manufacturing.

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Table 2
Value Added in Manufacturing and Manufactured Good Exports 1983-87

	<u>Value Added</u> <u>(Millions of 1987 J\$)</u>		<u>Non Traditional Mfg. Exports</u> <u>(US\$ Millions)</u>		
	<u>5 Priority Areas</u>	<u>All Other</u>	<u>5 Priority Areas</u>	<u>Other^{b/}</u>	<u>Total^{b/}</u>
1983	478	2,832	38.2	101.6	139.8
1984	543	2,638	49.8	87.2	137.0
1985	529	2,622	52.7	88.8	141.5
1986	635	2,605	73.9	73.5	147.4
1987	718	2,690	123.2	85.5	208.7
1988	NA	NA	134.7	90.8	225.5

Growth Rates (%)

1983-87	10.7	-1.3	34.0	-4.2	10.5
1983-88	NA	NA	28.7	-2.2	10.0
1985-87	16.5	1.3	52.9	-1.9	21.4
1985-88	NA	NA	36.7	0.7	16.8

- Notes: (a) See Annex I-2 for value added calculations.
 (b) Value of horticulture exports added to published figures for non-traditional manufactured goods exports in arriving at these totals.

Sources: International Trade Statistics, 1983-88.
 National Income and Product Statistics, 1987, STATIN

As shown in Table 2, the 5 priority areas have accounted for all of the growth in both non-traditional manufacturing output and exports since 1983. Their share of value added rose from 14.4 percent to 21.1 percent, and of exports from 27.3 percent to 59.7 percent during 1983-88. Clearly the project has identified the most dynamic areas for priority attention.

4. Benefit-Cost Analysis

a. General Considerations.

The project aims at effecting increases in manufacturing imports and exports greater than those that would have occurred in the absence of a project. Before attempting a cost-benefit measurement, a few basic considerations need to be dealt with.

(1) Why address, in particular, the areas already doing well, that is, the five priority areas that have accounted for all of the output and export growth seen in the 1980's? Why not, instead, concentrate on areas that have been stagnating? First, the priority areas have been shown to have a

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comparative advantage relative to other areas of manufacturing. Indeed, their relatively strong export growth performance to date bears that out. Secondly, as relatively good as their performance has been, it can be improved. Productivity, access to credit, and export marketing know how, to name three constraint areas to be addressed under the project, can all be much improved, and the improvement should translate directly to higher rates of production and export growth.

(2) Haven't exports already experienced a major benefit from structural adjustment, and wouldn't these benefits continue to accrue in the absence of a project? They have, and benefits will continue to accrue from ongoing trade and tariff measures. The "without project" scenario shown below assumes that the environment would continue to improve in the absence of a project. But the project is designed to address constraints - such as low productivity and inadequate access to credit - that would not otherwise be addressed.

(3) Isn't success of the project dependent on continued stability and/or external events beyond Jamaica's control? Certainly, maintenance of a strong U.S. market, which accounts for 85 percent of the exports from the 5 priority areas, is essential. A decline in that market, owing to economic recession or protectionism, could be extremely damaging. Such events are beyond Jamaica's control, though Jamaica's output and exports would still do better under conditions of a successful project than without one. Continued economic stability is also essential. Without stability, it might become impossible to maintain a realistic exchange rate, to the detriment of exports; and interest rates would tend to rise as a result of rising budget deficits and the crowding out of prospective private sector borrowers. The project, then, assumes the maintenance of relative economic stability.

(4) Have alternatives been considered? This project comprises some 19 components designed to address 15 perceived constraints to manufacturing and export development. It is hard to think of a component or constraint that hasn't been included, let alone another extensive set. The one clear alternative to the approach under consideration would be exchange rate devaluation, perhaps combined with a bonus rate for exporters. Again Mission policy is to deal with stabilization and exchange rate issues through the policy dialogue process. Within that forum, the Mission favors the maintenance of a realistic exchange rate quite apart from structural measures as may be taken, such as those included in this project. Bonus rates for exporters and/or foreign exchange retention schemes would be logical candidates for special study under the project component dealing with delays in accessing foreign exchange.

b. Analysis

The project will provide \$7 million over a 4-year life-of-project (LOP) period. Of that total, all but the privatization component would be directed at removing constraints to output and export growth currently facing the private sector, primarily manufacturing businesses. Proposed project components differ widely in the nature and timing of their probable impact on

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business activities. Certain components such as small business credit and feeder industries should have a relatively direct, near-term impact. On the other hand the impact of studies, and measures to improve organizations that deal with business will occur later during the life of the project. Indeed, the diffuse and often indirect nature of the activities makes it impossible to project what will happen in terms of impact on output and export development. What can be attempted is a showing of what needs to happen in order for the project to prove cost effective. For this purpose, a distinction is made between the privatization component and all other project components.

(1) Privatization (\$392,000)

The project will provide \$392,000 for technical assistance in support of further privatization efforts by the GOJ. If this component of the project leads to one \$4 million divestment that would not otherwise have taken place, and if the rate of return (net profit before taxes) of that enterprise is increased by 10 percent as a result, this component will have proven cost effective within four years of the date of privatization. (See Annex E-2 for the computation). The privatization component is expected to accomplish at least this much.

(2) All Other Project Components (\$6,608,000)

There being no data on rates of return in manufacturing, there is no possibility of a benefit/cost analysis based on rate of return criteria. As a primary objective of the project, export growth was considered as a criterion by which to assess the project. However, while the data are available, conceptual difficulties seem to preclude an analysis based on export growth. To list two of the more formidable: what would be considered the normative rate of export growth beyond which exports should increase in order to justify the project; and what rate of increase in exports should be sought bearing in mind that export expansion will guarantee a demand for imports of unknown proportions? The one criterion that seems to meet the tests of data availability and relevance is value added.

a. Value Added Analysis

In this analysis, to be considered cost effective, the project should result in an increase in real value added in manufacturing beyond the increase that would have occurred in the absence of a project, that would more than offset discounted project costs. Increases in exports and employment, beyond what would have occurred, would then be considered in the area of additional project benefits. As to timing, if the project is successful, increases in value added beyond the no-project situation should continue indefinitely. For sake of conservatism, and simplicity, only ten years of benefits are considered.

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Table 3 contains the basic benefit/cost calculation. Basic assumptions underlying the calculations are:

- Four percent is assumed as the current "normative" rate of increase in value added, from which the projections proceed. It is, in fact, the approximate actual rate of increase for the period 1985-88 after allowing for the effects of Hurricane Gilbert.
- The annual percentage increase in value-added under the "without project" scenario is projected to rise from 4.0 to 4.5 percent in 1996 as a result of ongoing structural adjustment measures, then level off at that rate.
- The annual percentage increase in the "with project" scenario is projected to rise to 4.65 percent in 1995 (one year after project completion), then level off at that rate. Increases beyond the "without project" scenario are assumed to be minimal in the first few years (zero in 1990), then more pronounced, reflecting the indirect nature of several of the project components and the time required for them to have an effect.

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Table 3

Hypothetical Benefit/Cost Calculations

	<u>% Incs. in Mfg. Value Added</u>		<u>Value Added in Mfg. (Millions of 1989 US\$)</u>			<u>Discounted Project Costs (Millions 1989 US\$)</u>	
	<u>With Project</u>	<u>Without Project</u>	<u>With Project</u>	<u>Without Project</u>	<u>Annual Inc.</u>	<u>Annual</u>	<u>Cumulative</u>
1990	4.00	4.00	740.0 ^a /	740.0 ^a /		-	-
1991	4.08	4.08	770.2	770.2	0	1.27	1.27
1992	4.20	4.16	802.5	802.2	0.3	1.77	3.04
1993	4.30	4.24	837.0	836.3	0.7	1.43	4.47
1994	4.50	4.33	874.7	872.5	2.2	1.14	5.61
1995	4.65	4.42	915.3	911.0	4.3	0.04	5.65
1996	4.65	4.50	957.9	952.1	5.8	-	-
1997	4.65	4.50	1002.5	995.0	7.5		
1998	4.65	4.50	1049.1	1039.8	9.3		
1999	4.65	4.50	1097.8	1086.6	11.2		
2000	4.65	4.50	1148.9	1135.6	13.3		

Benefit: Cost Ratio = $\frac{18.9}{5.65} = 3.35$

Notes: See Annex I-2 for assumptions with respect to 1989 value added, increases in value added and discount rate.

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Based on the Table 3 scenario, the increase in real value added in manufacturing would exceed discounted project costs by \$7.6 million. The 10-year projection shows increase in discounted real value added of \$18.9 million and discounted project costs of \$5.7 a benefit/cost ratio of 3.35. The hypothesized increase in overall value added in manufacturing would be consistent with a 12.7 rate of increase for the five priority sectors and no increase for all other sectors combined.

b. Additional Benefits:

Additional project benefits can be hypothesized roughly as follows:

Exports: Based on the existing ratio of non-traditional manufacturing exports to value added in non-traditional manufacturing (.306), the additional value added created could be expected to produce \$13 million of exports (.306 x 43.2) more than would otherwise occur in the ten years to 1999. However, since export promotion is one of the purposes of the project, the ratio of exports to value added should itself increase. In that case, additional exports as a result of the project might reach \$20 million by 1999.

Employment: As discussed above, employment in manufacturing has been rising more rapidly than production, the other side of the low productivity coin. This situation should cease as productivity improvements under the project take effect. If productivity were to stabilize over the ten-year period, the percentage increase in manufacturing employment would equal the percentage increase in value added. The additional employment attributable to the project would amount to some \$1.8 million (0.012 x \$150 million).

c. Conclusion

Again, Table 3 is not to be considered a projection of events. Rather, it is intended as an indicative scenario designed to show what would have to happen for the project to be cost effective. In the event, the hypothetical benefits exceed discounted project costs by a ratio of about 2 to 1. In reality, the project can be expected to have more of an impact than the 0.15 percent increase in value added assumed here.

D. Social Soundness Analysis

This project will create dynamic economic growth in the private sector to raise income levels and generate jobs. Consequently, identifying specific beneficiary groups is less meaningful because project benefits will accrue to the total population. Thus, project beneficiaries can be identified as the thousands of unemployed and underemployed Jamaicans who could be making

significant economic contributions toward their own well being and that of the nation if given the opportunity. Since this project will target industries that have the most potential for growth and, thus, create the greatest opportunities for employment, the typically disinfranchised groups with the least skills and lowest wages will be the direct beneficiaries - women and young men. To the extent barriers to entry are reduced, financial markets are opened, and new entrepreneurs encouraged, benefits will accrue to traditionally disadvantaged groups, in that ownership opportunities will become much greater. There will be a spill over effect from the project which will benefit the society and economy in general.

Population and Unemployment

Jamaica's population is estimated at 2.4 million. Of this number, slightly more than one million people are available to work. Total employment in 1988 averaged 871,800, which was partly due to the increase of 21,600 in female employment. In contrast, the employment level of male workers declined by 4,800. However, despite this downward movement in male employment, their relative share of overall employment continued to be higher than that of their female counterparts: 58 percent as against 42 percent. Despite the employment gains of women, their unemployment rate was more than twice that for men: 27 percent vs. 12 percent. The average unemployment rate during the same period was 19 percent. (Note: Unemployment rates in Jamaica are calculated based on those who are looking for employment and those who are not looking.)

Urbanization

Increasingly, more jobs are demanded in urban areas where unemployment is highest. Jamaica's urban population has registered significant increase over the rural areas, creating densely populated, poverty stricken pockets. From 1970 to 1982, the total population increased by 19 percent, but that figure hides the difference in the percentage increase in the urban and rural populations. While the rural population increased by only 7 percent, the urban population during the same period increased by 40 percent. Today, roughly 40 percent of Jamaica's population lives in rural areas.

Although Jamaica is experiencing a positive low annual birth rate, the population has continued a rapid process of urbanization which is quickly diversifying. Just after World War II, the Parishes of Kingston and St. Andrews contained approximately 85 percent of the country's urban population. By 1970, urban diversification had taken hold in May Pen, Montego Bay and Spanish Town. These growth areas were primarily located near tourist or bauxite/alumina centers. Therefore, within 25 years, the urban population located in the Parishes of Kingston and St. Andrew fell to roughly 63 percent of total urban population, and by 1982, the figure was slightly over 50 percent. This shift in population increased pressure in additional urban areas for creates jobs and income.

Migration

The country's annual population growth rate in 1987 was 0.4 percent which reflects not only the net rate of natural increase but also the net external migration. Due to high unemployment and underemployment, low wages, and deteriorating working conditions, emigration from Jamaica to North America has increased significantly over the past few years with the below 20 age group comprising the largest group. More than half of the migrants are in the working age group of 20-59 years, and in 1987 females outnumbered (53 percent of the total) male migrants over previous years.

Social Indicators:

The country's social indicators are high for a developing country: life expectancy at birth is 72.6 years, infant mortality is about 18 deaths per 1000 live births, and, nutritionally, Jamaicans receive about 111 percent of the necessary calorie supply (2,585 calories per capita). Adult literacy in Jamaica stands at 73 percent and total school enrollment as a ratio of population is 104.7 for primary schools, 88.1 percent for secondary schools, and 4.7 percent for post secondary schools. These figures, however, hide the effect of the government's dwindling budget and IMF Structural Adjustment Program. Social services, particularly health and education, have deteriorated substantially. Resuscitation is possible only if the private sector takes an active role either in supplying needed social services or in employing staff to widen the income tax base.

Employment Opportunities

The services sector employs the largest percentage of the population at 52 percent, followed by agriculture at 30 percent, manufacturing at 14 percent, construction at 4 percent and mining at less than 1 percent. Agriculture and services show the greatest historical growth rates since 1965 at 1.9 and 1.3 percent respectively. With an average annual growth in labor force standing at 2.9 percent, it is clear that jobs will continue to be a major concern for the Jamaican Government. Furthermore, since January 1987, the GOJ has adhered to a 10 percent wage increase target that had been agreed to as part of the IMF stand-by accord.

As mentioned above, some increases have occurred in the participation of women in the workforce, both in the over and under 25 year age groups. This expansion is a result of increased economic activity in informal businesses (e.g., Informal Commercial Importers) and in the apparel and sewn products sub-sector, where employment has a high concentration of female workers. But, all is not well in the working condition of female workers in garment

factories in the free zones. Complaints of unfair working conditions (e.g., low wages, compulsory overtime, lack of sick and annual leave, no facilities for treatment of work-related injuries), and labor unrest plague many of the garment factories.

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Women continue to experience higher unemployment and underemployment than men in the workforce. The proportion of female workers employed on a part-time basis, which is one indicator of underemployment, continues to be significantly higher than for their male counterparts. The GOJ has implemented several measures to address the unemployment situation of this vulnerable group, including programs such as the Dutch Program for Women implemented by Solidarity and H.E.A.R.T. Trust. Additionally, the expansion in the 807 and Cut, Make and Trim (CMT) programs have contributed to the declining unemployment rates of these workers. The best hope, however, for women seems to be in the small business sector. Roughly 41 percent of all small and micro businesses are women-owned.

The quest for self-employment has been a traditional strategy for both men and women in Jamaica. The Labor Force Surveys of the 1970's indicate significant growth in the number of persons involved in such occupations particularly during peak unemployment periods. This trend continued into the 1980's. Between 1980-87, the number of women in independent occupations increased from 91,200 to 114,000 while the number of males also increased from 208,000 to 238,900 over the same period.

There is evidence to suggest that Structural Adjustment policies have stimulated informal sector participation, and government programs such as Solidarity and Self-Start which provide seed capital for micro-enterprises have facilitated those persons who have been displaced by public sector cut-backs or who already have on-going independent occupations. These programs alone, however, do not account for the growth in the size of the sector. One explanation for growth of the informal distributive trading sector is that deregulation policies have reduced the barriers to importation and encouraged small-scale traders to ply between Jamaica and regional ports to supply the local market with imported goods. This has created income generation opportunities for thousands of women who now form an employment category called Informal Commercial Importers. Over 24,000 females entered the distributive trades over the period 1980-87.

Although there is some disparity with respect to gender, males under 25 years old represent another group plagued by a high proportion of unemployment. Unemployment among members of this group stands at 26%, while the group of men 25 years of age and over has grown in employment steadily over the past few years as a result of economic activity in manufacturing sector as well as in construction which is traditionally a male-dominated sector. The largest employment increase by occupational group occurred in the craftsmen,

production process and operating group. This occupational group has increased in employment and was responsible for the overall increase among "blue collar" workers, because employment among laborers increased marginally.

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Jamaica has experienced sectoral labor shifts over the last 20 years which reflect, to some degree, the country's level of development. Only about a third of the labor force is involved in agriculture, representing a gradual reduction from the turn of the century when the vast majority of the labor force was involved in agriculture. Also, like other former colonies with a high propensity to import, Jamaica has a weak manufacturing sector which employs only a small part of the labor force. Manufacturing has never been a dominant part of the Jamaican economy. Additionally, the services sector (which includes some tourism) is large, hovering around the 50 percent level. Much of the services-related employment has mushroomed simply as administrative support, i.e. clerical and sales personnel for distribution. Jamaica continues to import much of its manufacturing needs rather than produce them.

This project, however, will focus on those sub-sectors which are most likely to produce sustained economic activity and create backward and forward linkages in the economy. Additionally, the project will reach those who most need employment and higher incomes.

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INITIAL ENVIRONMENTAL EXAMINATION

Project Location: Jamaica

Project Title: Export Development and Investment
Promotion

Funding (LOP): \$14,000,000

Life of Project: 5 years

IEE Prepared by: Charles R. Mathews *Charles R. Mathews*
Mission Environmental Officer

Date: December 7, 1988

Recommended Threshold Decision: Negative Determination

Mission Director's Concurrence: *William Joslin*
William Joslin, Director

Date: December 14, 1988

BACKGROUND:

The proposed Export Development and Investment Promotion Project (EDIP) represents a culmination of USAID/Jamaica experience and USAID expertise gained through the support of export development activities in Jamaica. The project goal is to foster economic growth and equity. Its purpose is to increase exports and diversify investments. These elements were identified in USAID/Jamaica's Private Sector Strategy (March, 1988) as the most effective way in which to provide new opportunities for a broader base of the population.

The Project is commensurate with the Government of Jamaica's (GOJ) macro policy to encourage export-oriented growth to generate foreign exchange earnings and increase employment. Through various GOJ and private sector organizations, the Project will support efforts to remove constraints to export and business opportunities and assist in designing new policies which will encourage private sector expansion in the export sector. Policy dialogue and specific project components are key elements necessary to promote an export led economy. The components include:

1. Small Business Development - Major objectives are to: increase the start-up and expansion of small and medium size Jamaican businesses; diversify the product mix; and expand and diversify the ownership base.
2. Feeder Industries - The thrust is to strengthen emerging export sub-sectors and to move each to an economic self-sufficient take off

point. The development of small business feeder firms is crucial to the success of this component.

3. New Start Ups and Restructuring - Joint ventures and export promotion with more established firms will be the major thrust of this component. The essential feature of this component is encouragement of foreign investments in Jamaica and encouraging existing business to restructure in order to successfully enter the export market.

4. Financial Markets - This component will assist in developing programs to stimulate savings, encourage investments in long term securities, provide industry with access to capital and encourage the use of free market forces to allocate capital to productive enterprises.

5. Privatization - The objective of this component is to continue support to the Government of Jamaica in its effort to divest public-owned entities and to privatize selected Government operations.

6. Institutional Development - Strengthening the capacity of GOJ and private sector organizations to move increasingly from a public relations/lobbying role to the provision of services demanded by the private sector.

DISCUSSION:

The intent of this project is to increase exports and diversify investments. AID inputs will be in the form of training, technical

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assistance and limited supply of commodities. The project will not finance new construction sites, therefore, negative impacts are expected to be minimal. (See Impact Identification and Evaluation Form).

RECOMMENDATION:

A negative determination is recommended.

ACTION: AID-2 INFC: CHARGT' ECON

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DL RUEHC #1362 2440247
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01-SEP-89 TOR: 12:20
OH: 3709E
CERG: AID
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ADD:

AIDAC KINGSTON FOR C. MATHEWS, BRIDGETOWN FOR A. DEGEORGES

E.O. 12356: N/A

TAGS:

SUBJECT: ENVIRONMENTAL THRESHOLD DECISIONS FOR 2
USAID/JAMAICA PROJECTS.

ACTION COPY
ACTION TAKEN:

1. LAC DEPUTY ENVIRONMENTAL OFFICER, JOEN WILSON, HAS REVIEWED THE PP FOR THE EXPORT DEVELOPMENT AND INVESTMENT PROMOTION (EDIP) PROJECT (532-0135). WITH THE ADDITIONAL INFORMATION PROVIDED IN THE PP, WILSON CAN NOW CONCUR WITH THE IEE'S RECOMMENDED THRESHOLD DECISION OF A NEGATIVE DETERMINATION. NO FURTHER ACTION ON THE PART OF THE MISSION IS REQUIRED AT THIS TIME. THIS CONCURRENCE REMOVES THE CONDITIONALITY IN THE ORIGINAL ENVIRONMENTAL THRESHOLD DECISION (LAC-IEE-89-10) THAT THE PP QUOTE ... DETAIL THE ENVIRONMENTAL REVIEW MECHANISM TO BE DEVELOPED AND IMPLEMENTED BY EDIP FOR ENSURING THAT THE INDIVIDUAL SUPPORTED ACTIVITIES ARE CONDUCTED IN AN ENVIRONMENTALLY SOUND MANNER ... UNQUOTE. IF THE PROJECT, HOWEVER, DOES INITIATE ACTIVITIES OR SUPPORT INDUSTRIES THAT MAY HAVE A NEGATIVE ENVIRONMENTAL EFFECT, THE MISSION MUST NOTIFY THE BUREAU'S ENVIRONMENTAL OFFICER FOR RECONSIDERATION OF THE THRESHOLD DECISION.

2. LAC DEPUTY ENVIRONMENTAL OFFICER HAS ALSO REVIEWED THE ENVIRONMENTAL DETERMINATION FOR THE FOOD AID MONITORING AND SUPPORT PROJECT (532-0157) AND HEREBY CONCURS IN THE MISSION RECOMMENDATION OF THE PROJECT FOR A CATEGORICAL EXCLUSION. THE NUMBER ASSIGNED TO THIS ENVIRONMENTAL DETERMINATION AND ASSOCIATED THRESHOLD DECISION IS: LAC-IEE-89-63. A COPY OF THE THRESHOLD DECISION IS BEING SENT TO THE MISSION FOR ITS RECORDS. BAKER
BT
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DATE RECEIVED	9/1
ACTION OFFICER:	OEFE
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EXPORT DEVELOPMENT AND INVESTMENT PROMOTION PROJECT
532-0135

B. Financial Analysis

Many of the activities financed by this project will be further defined as a result of business plan submitted by firms or organizations in response to USAID request for proposals. These include; the Feeder Industry Pilot, feasibility studies, Small Business Organizations, JAMPRO industrial consulting, and others. These business plans will undergo an administrative and financial analysis at the time they are presented or will be analyzed by experts prior to implementation. They do not lend themselves to conventional AID financial analysis at this stage of project development.

EDIP support for the National Development Foundation (NDF) is analyzed below to support the Project Paper contention that NDF can continue to lend after EDIP financing is depleted. Following this analysis is an explanation of the financial effect of EDIP assistance on JAMPRO, and the likelihood of the GOJ continuing to finance recurrent costs associated with investment and trade promotion activities.

1. National Development Foundation

In June, 1988 Price Waterhouse completed a USAID-financed, five month operational review of the National Development Foundation (NDF) with the express purpose of identifying a viable strategy for self-sufficiency over the next five years. The Executive Summary of their final report is contained in Annex G.

The financial and other analyses concluded that with some organizational and management changes, and an expanded loan portfolio NDF could achieve overall self-sufficiency in five years. Price Waterhouse recommendations included redefining loan origination, counseling and monitoring functions, raising interest rates and selected fees, and increasing the number and average size of outstanding loans. A decentralized management structure was also recommended, accompanied by stronger senior staffing.

NDF management has placed the organization squarely on the road to self-sufficiency by making it stronger financially and managerially. The best indicator of overall improved performance is the reduction in overall operating deficit as a percentage of gross expenditures, from 38 percent in August 1988 to just 10 percent a year later.

During the past year NDF has vigorously pursued Price Waterhouse recommendations. A new Director of Banking Operations was appointed to oversee credit services throughout the country, and several additional managers were appointed as well. The accounting and management information system installed in 1986 is undergoing a significant software and hardware upgrade to improve monitoring and control. Staff responsibilities in the Technical Assistance and Training Division were reorganized to separate loan monitoring functions from those of counseling and project development. Strengthened loan monitoring reduced arrears and non-current accounts from 12.6 percent of outstanding loans at the end of 1987 to 9.7 percent as of August 1989.

Price Waterhouse conducted an in-depth cash flow analysis and recommended an expanded loan portfolio and increased loan size to reach a break-even point for banking operations. Since June 1988 the outstanding loan portfolio has grown from J\$12.4 million to J\$31.0 million, and continues to increase at over 50 percent per annum. Average loan size has increased from J\$16,000 in 1986-87 to J\$21,300 for 1989. Interest rates were raised to 20 percent, and banking operations went from a deficit position of J\$119,000 in June 1988, to a surplus of J\$415,000 one year later.

Fees for Project Development, Consulting and Training activities were raised to recover costs wherever possible. The result was an increase in 1989 non-interest income to date of 247 percent over end of year 1988 totals. In 1986 NDF decided to establish an endowment fund to ensure technical assistance and training activities could be accommodated under a self-sufficiency strategy. To date it has received commitments to the endowment fund of over J\$13.0 million.

Despite a mixture of loan and grant financing from several other donors, assistance to date is not sufficient to place the organization in an overall surplus revenue position. In the face of demand representing eight times its ability to provide credit services, NDF has rapidly expanded its portfolio. Nevertheless expensive technical assistance and training costs must be offset by surplus revenues from credit operations, combined with revenues from the endowment fund. NDF will continue increase the size of its endowment and expand its lending operations to the point at which it will be capable of meeting all its expenses. Using Price Waterhouse and other analyses, and based on current operating experience, NDF estimates a total loan portfolio of J\$50.0 million and an endowment of J\$25.0 million will enable it to generate revenues sufficient to cover all costs.

This will not however permit it to meet even one third of the effective demand for credit services from its clientele, nor to expand operations over time from surplus revenues. NDF estimates a portfolio of over J\$100.0 million would be required to meet just 50 percent of the effective demand for credit.

Combined with approximately J\$25.0 million in other donor support over the next three years, USAID's J\$4.55 million (US\$.70 million) grant for credit operations will result in a loan portfolio of about J\$60.5 million, thereby enabling the organization to achieve its intermediate goal of becoming a development finance institution meeting costs from its revenues, and servicing a significant number of small enterprise needs.

2. JAMPRO

EDIP will finance selected trade and investment promotion activities and technical assistance and training to strengthen JAMPRO industrial consulting capabilities. Neither the administration of project funds, nor the implementation of specific activities will place a material financial burden on JAMPRO. While an in-depth financial analysis is therefore not required, some additional information is provided below to better understand the project's effect on JAMPRO.

Government of Jamaica commitments to trade and investment promotion activities currently co-financed by USAID are likely to remain stable, even after EDIP support ends. Over the last six years USAID has provided approximately US\$1.5 million a year to JAMPRO and/or its predecessor agencies for similar activities. Nevertheless, Mission assistance represented a small proportion of the annual GOJ expenditures. For example, USAID assistance amounted to only 10 percent of JAMPRO's overall budget in 1987-88, and 12 percent in 1988-89. While EDIP expands assistance to the industrial consulting component of JAMPRO services, the reduction in overseas promotional activities will keep overall AID assistance to a relatively small proportion of JAMPRO expenditures.

Neither will EDIP activities require a significant realignment of JAMPRO's budget, beyond what has already been put into effect as of FY89. In line with the GOJ efforts to focus on Jamaican production constraints, EDIP will finance a reduced level of overseas trade and investment promotion activities compared to prior years. With few exceptions, EDIP-financed industrial consultants will upgrade the skills of existing JAMPRO engineers, expanding the range and quality of their expertise and avoiding the need to materially increase staff size. The fact that a realignment consistent with the project strategy has already been put in place further supports the likelihood that GOJ support for JAMPRO's recurrent costs is likely to remain stable or increase.

Finally, EDIP-financed efforts to shift the burden of technical assistance and overseas marketing to private sector organizations and firms will serve to reduce the demand for JAMPRO services over time, with a corresponding reduction in the GOJ financial burden. While this will require a longer period of time than the three year life-of-project, its long term impact should not be discounted.

A. Institutional Analysis

This analysis reviews the rationale behind the selection of JAMPRO and NDF as the two principle implementing agencies for EDIP. It identifies the analyses prepared to support their participation and describes each organization history and objectives.

As mentioned elsewhere in the paper, USAID carried out a series of assessments in 1987 and 1988 in preparation for the this project. Included in the scope of these assessments was a review of institutions involved in export and investment promotion and of their ability to deliver comprehensive business services.

The study on Small Business and Export Marketing Assessments revealed that, apart from the government-financed JAMPRO, there existed very limited organizational capability to deliver the kind of business services envisioned under EDIP. While several organizations had complimentary services, most limited themselves to lobbying actions on behalf of their members. Furthermore, the team concluded JAMPRO was doing a credible job carrying out its mandate, especially with regard to investment promotion. The analyses leading to the project paper therefore concluded that the primary implementing agency for the technical assistance and investment promotion components must be JAMPRO, and that the project could usefully pursue the development of comparable services in non-government organizations.

The Mission then undertook to determine if JAMPRO could absorb the volume of project assistance contemplated under EDIP. A review of prior Mission experience working with JAMPRO and its predecessor agencies under the Technical Consultations & Training Grant (TC&TG), and the results of a Price Waterhouse review of accounting and administrative systems in preparation for the Hurricane Reconstruction Project both lead the Mission to conclude JAMPRO was fully capable of implementing EDIP.

The administrative and managerial demands placed on JAMPRO under EDIP are no greater than those required for similar programs implemented with TC&TG Project financing. Under that project JAMPRO and its predecessor agencies have implemented similar services for the past five years. (EDIP refocuses resources on technical assistance activities, but overall levels remain constant.) During the prior period, JAMPRO fully demonstrated its ability to manage project funds, undertake contracting and commodity procurement actions, and report accurately on its progress. At the same time JAMPRO managed considerably more funds provided by the GOJ and other donors. While USAID assistance amounted to over \$1.75 million annually for the past two years, this amount never exceeded 12 percent of JAMPRO's operational budget.

Prior to implementation of the Export Business Recovery and Micro and Small Enterprise Components of the Hurricane Reconstruction

Project in March of 1989, Price Waterhouse reviewed JAMPRO administrative and accounting procedures. The review examined two implementing divisions, the Block Grant Unit and the Accounts Department. It concluded that JAMPRO was fully capable of managing these two components, despite the tight implementation schedule and the need to disburse funds rapidly.

The previously mentioned assessments and related analyses were relied also upon to select the National Development Foundation to implement the small enterprise credit component of EDIP. The Assessment of Small Enterprises identified NDF as the leading provider of credit services to this sector in Jamaica. No other institution could match NDF coverage or performance, and NDF possessed significant capacity to expand as well. Given the Mission's long association with the organization (see below) and their leading role in providing credit services, NDF's role in the credit component was never seriously in doubt. To determine whether or not NDF could absorb the EDIP funds, the Mission relied on two additional analyses.

In 1988, Price Waterhouse was requested to conduct an operational review for strategic planning. This review made a series of recommendations regarding pricing, budgeting, and organizational structure to permit a rapid expansion of NDF lending and technical services. The review clearly demonstrated NDF's ability to expand their services beyond the level of assistance planned under EDIP. Most of the recommendations have since been implemented and substantial growth has taken place (See the Financial Analysis Section).

An audit of NDF/J's loan activities under the Emergency Rehabilitation Project was carried out recently. The audit disclosed some administrative weaknesses in accounting and reporting on loan activities, but these problems have been addressed and NDF/J is strengthening its administration (See Financial Analysis section).

The second confirmation of NDF's ability to manage EDIP funds comes from an on-going 1988/1989 audit of Hurricane Reconstruction Project implementation. NDF accounting controls and reporting procedures have been verified by Touche Ross through a monthly review of on-going project implementation. They have been consistently reported as adequate for handling over US\$2.0 million in small enterprise credits.

Additional descriptive information is provided below on JAMPRO and NDF to further document their performance objectives and future plans.

Jamaica Promotions, Ltd. (JAMPRO) JAMPRO LTD.

JAMPRO is the government of Jamaica's economic development agency. It has been created out of the merger of the Jamaica National Investment Promotion Limited (JNIP), the Jamaica Industrial

Development Corporation (JIDC) and the Jamaica National Export Corporation (JNEC). Combining the services of all three, JAMPRO is responsible for the development and implementation of programs to encourage investment, provide training, modernize industries, and stimulate export trade for Jamaica.

The policy emphasis of the new Government and GOJ's budget constraints recently led to a restructuring of the operations of JAMPRO in accordance with the attached organization chart.

In essence, the basis for the restructure of JAMPRO was to:

- (1) Streamline its functions to take advantages of economies of scale in investment promotion, marketing and modernization activities. Yet, JAMPRO has kept to a minimum reductions in the complement of local staff in the key areas of training and industry modernization, trade regulation, investment and trade promotion.
- (2) Significantly reduce the foreign exchange component of JAMPRO's budget, while seeking to maintain a viable presence in key countries/regions which are the main sources of foreign investment flows and the major purchasers of Jamaican exports.

Briefly, the major changes involve:

- (1) A move away from an organization based mainly on group functions (trade services, promotional services, industrial training services etc.) to one organized to reflect sectoral product priorities, e.g. agro-industry, apparel and footwear, furniture & wood products, minerals, and heavy industries. (Please see accompanying chart). Each sector/product unit will have links with the Board of Directors and benefit from their expertise through sector/product sub-committees of the Board. The rationale behind this arrangement, according to JAMPRO, was to allow JAMPRO to respond in a more co-ordinated manner than in the past to the needs of businesses in the designated priority sectors.
- (2) Forging of strong links with Jamaica's High Commission, Embassies, Consulates in North America, Europe and the Far East to avoid the possible duplication of offices and associated administrative/accounting, secretarial services. According to plans, two offices will be closed, two will reduce their staff complement significantly, and move into consulates, and the New York Office will have its staff reduced by about 55 percent. Overall, the overseas staff positions will be reduced by 51 percent.
- (3) Undertaking more promotional activities in and from Jamaica. This is expected to result in more selective investment promotions and targetted export marketing.

- (4) The creation of a unit to prepare pre-investment studies and the placing of greater emphasis on the Business Advisory and Regional Development activities which involve mainly small businesses.
- (5) Maintaining a strong emphasis on delivery of quality industrial training and effective Export Administration services.
- (6) Closing the Project and Construction Monitoring Unit.

As one of its initial planning steps, JAMPRO has prepared a workplan, which will provide the basis to measure its effectiveness under the new organizational structure. The plan entails the following for the operational year 1989/1990:

(1). Industry Modernization. Under this program, JAMPRO seeks to provide:

- (a) Short and long term technical assistance to enterprises in the priority subsectors to increase productivity and lower production costs.
- (b) Retool enterprises by assessing reduced rates of duties on imports of capital goods. According to JAMPRO, some 200 firms will be examined and approximately 160 of these will be certified for benefits.
- (c) Provision of industrial training for managerial, technical and operational personnel in industry. The number of courses planned is 115 with anticipated participation of 1,700 persons.
- (d) Provision of training in toolmaking and repair and maintenance of equipment and tools for 60 participants.

(2) Establishment of a Design Center (with UNIDO/UNDP assistance). The purpose of this center will be to work with exporters and the packaging sub-sector in design packaging and product development. It is expected that it will focus particularly on quality requirements and trends. It would also seek to re-orient local designers towards developing appropriate packaging and to educate local manufacturers to help them compete in the international markets.

(3) Technical Assistance. A technical assistance program to assist local companies upgrade their production methods and increase their productivity levels is in place. This program provides industrial engineers, machine maintenance engineers, technicians and other technical consultants to work with local companies for specified periods ranging between 2 to 24 months.

(4) Investment Promotion. Under the new structure, JAMPRO expects to target investment efforts in the areas of: agriculture (e.g. orchard crops, horticulture, aquaculture); agro processing industries (e.g. food processing); footwear and allied products; apparel; furniture and wood products; toys and sporting goods; minerals, chemicals and heavy industries; tourism; information processing and associated activities; and crafts.

According to JAMPRO projections, the aforesaid structure, together with the organization of investment seminars and workshops, and complementary activities such as the streamlining of the investment incentives program, will contribute to the implementation of 140 new projects (including 25 contracts), generating jobs for approximately 7,000 persons.

In the area of export promotion, JAMPRO will court buyers from Europe, U.K., Canada, U.S. and the Far East as well as CARICOM and the Central American countries. To do this, JAMPRO sponsors specialized product promotions, in-store promotions, inward buying missions, outward selling missions and attendance at trade fairs. JAMPRO expects that these activities will establish new market niches in West Germany; U.K.; Netherlands; Canada-(Ontario, Quebec;) U.S.A. - (California; Boston, Chicago, New York, Puerto Rico and U.S. Virgin Island;) Caribbean and Central America - (CARICOM, Costa Rico, Mexico, Curacao, St. Maarten).

Products such as strawberries, mushrooms, melon, chinese vegetables, canned ackees and June Plums are expected to receive special attention, further diversifying exports from Jamaica. These products were selected for promotion after an analysis of enquiries registered in the local and overseas offices over the past 15 months.

Along with plans to penetrate new markets and promote new products, JAMPRO's export promotion program is aimed at educating exporters on raw material sources, product package design, marketing and promotional strategies for various products.

An independent firm carried out recently an audit of JAMPRO's operations, in relation to this entity's involvement in Hurricane Gilbert relief activities. The audit entailed internal controls, accounting, reporting and host country contracting capabilities. The audit disclosed no major weaknesses of JAMPRO operation's in these areas.

The National Development Foundation of Jamaica (NDF/J)

The NDF/J was established on November 16, 1981, as a not-for-profit company under Section 20 of the Companies Act of Jamaica. The NDF/J is legally empowered through its by-laws to make loans upon such terms as the Board of Management of the NDF/J may determine. It is also empowered to obtain funds either in Jamaica or externally, and to borrow or raise money for the object and purpose of the NDF/J. Its stated objectives are to:

- provide credit to persons engaged in small businesses in order to enable them to improve their purchasing and operating capacities;
- provide technical services and training to entrepreneurs in the small business sector; and
- generate direct and indirect employment opportunities within the sector.

The Foundation has received funding from the following sources:

United States Agency for International Development (USAID)
Jamaica Agricultural Development Foundation (JADF)
Canadian International Development Agency (CIDA)
German Agency for Technical Cooperation (GTZ)
Pan American Development Foundation (PADF)
Inter-American Development Bank (IDB)
National Development Bank (NDB)

USAID assistance has been in the form of an Operational Program Grant, one grant each under the TC&TG, Emergency Rehabilitation, and Hurricane Reconstruction Projects, and a Section 108 Loan.

The NDF/J is governed by a 22-person board of directors, including several prominent business people drawn from a wide cross-section of the business community. NDF/J's executive director manages its 64 person staff; 27 of these are professionals in banking, finance, accounting, law, management, public relations and training. The Bank has recently increased its collections department by an additional 4 persons, since there was a lag in the levels of collections. The rate of collection has since moved from J\$300,000 (US\$51,000) to J\$1.0 million (US\$169,000) monthly.

NDF/J's headquarters is in Kingston, and it operates five branches -- in Kingston, Montego Bay, Mandeville, Port Antonio, and Ocho Rios. Overall, the staffing level appears adequate and competent to carry out NDF/J's banking functions.

The NDF/J has currently a permanent staff of 64 in the following categories:

-- Senior Management	4
-- Branch Managers	4
-- Supervisors/Managers	13
-- Field Officers	15
-- Administration	14
-- Clerical Staff	7
-- Ancilliary Staff	7

The NDF is comprised of three principal groups: General Assembly, Board of Directors and Executive Management. The General Assembly consists of members of the NDF/J, i.e., all persons or institutions which have made contributions to the NDF/J and have applied for and received membership status in the NDF/J.

The Foundation offers the following services through its Banking Operations Division: project development, project analysis, loan packaging, loan monitoring, and business advice. The Technical Services and Training Division provides the following services: business counselling, business consultancy, agricultural extension services, training, seminars/Workshops, and information gathering and dissemination.

At the end of June 1989 the Foundation had made 2,361 loans valued at J\$35.8 million. The outstanding loan portfolio balance at the time was comprised of 1,288 loans valued at J\$24.8 million. The loans were made in support of economic activities in three sectors:

- Manufacturing--25.3% (crafts, food processing, footwear, furniture, garment, building materials)
- Services--53% (pastry/retail, grocery/retail, meat/retail, transporation, education, hairdressing and related areas)
- Agriculture--21.7% (agri-business, livestock)

The Foundation extends loans of up to J\$500,000 to individuals and groups. Loans of up to J\$50,000 are handled through the NDF/J's first window operations, while the second window serves clients with greater demand. It is estimated that total business projects supported by NDF/J have generated in excess of 6,400 jobs.

NDF/J's current loan eligibility criteria require that applicants be individuals or groups with net assets of J\$500,000 or less (exclusive of land and buildings) and that loans not exceed J\$350,000. NDF/J prices loans to borrowers at 20 percent except for agricultural loans, which are priced at

14 percent according to government practice. It has a total loan portfolio of J\$31.0 million (US\$5.5 million equivalent) to 2,200 customers, and average loan size is J\$16,000 (US\$2,500).

The Banking and Technical Services and Training (TST) divisions are regarded as separate functions with allocated costs. The Banking Operation showed a small surplus for 1988 (J\$251,870). Technical Services and Training, however, despite an increase in income generating activities, is expected to show a deficit for some years.

An Endowment Fund was established in 1988, the income from which is used to defray the cost of TST operations. This Fund now has a balance of approximately J\$4.695 million with a budgeted target of J\$13.763 million by the end of 1989.

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