

15N 81396

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

RDC/C

PROJECT PAPER

CARIBBEAN POLICY PROJECT

AID/LAC/P-765

PROJECT NUMBER: 538-0184

UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT				1. TRANSACTION CODE		DOCUMENT CODE				
PROJECT DATA SHEET				<input type="checkbox"/> A = Add <input type="checkbox"/> C = Change <input type="checkbox"/> D = Delete		Amendment Number _____ 3				
2. COUNTRY/ENTITY Regional Development Office/Caribbean				3. PROJECT NUMBER 538-0184						
4. BUREAU/OFFICE LAC 05				5. PROJECT TITLE (maximum 40 characters) Caribbean Policy Project						
6. PROJECT ASSISTANCE COMPLETION DATE (PACD) MM DD YY 1 2 3 1 9 7				7. ESTIMATED DATE OF OBLIGATION (Under 'B:' below, enter 1, 2, 3, or 4) A. Initial FY <u>92</u> B. Quarter <u>4</u> C. Final FY <u>97</u>						
8. COSTS (\$000 OR EQUIVALENT \$1 =)										
A. FUNDING SOURCE		FIRST FY 92			LIFE OF PROJECT					
		B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total			
AID Appropriated Total										
(Grant)		(1,000)	(1,000)	(2,000)	(3,300)	(8,700)	(12,000)			
(Loan)		()	()	()	()	()	()			
Other U.S.	1.									
	2.									
Host Country										
Other Donor(s)										
TOTALS		1,000	1,000	2,000	3,300	8,700	12,000			
9. SCHEDULE OF AID FUNDING (\$000)										
A. APPRO- PRIATION	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)FN	AGMP					1,000		9,000		
(2)ESF	PSMB					1,000		2,000		
(3)PSEE	PEBO							1,000		
(4)										
TOTALS						2,000		12,000		
10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)							11. SECONDARY PURPOSE CODE EVMP			
12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)										
A. Code		PSD	SPR	RSS	TTE					
B. Amount		4,000	4,000	2,000	2,000					
13. PROJECT PURPOSE (maximum 480 characters)										
<p>The adoption of macroeconomic and sector policies that will lead to increased trade and private sector investment, and position the states of the Eastern Caribbean to sustain economic growth.</p>										
14. SCHEDULED EVALUATIONS					15. SOURCE/ORIGIN OF GOODS AND SERVICES					
Interim		MM YY	MM YY	Final		MM YY				
1 2 9 4				0 6 9 7			<input checked="" type="checkbox"/> 000	<input type="checkbox"/> 941	<input checked="" type="checkbox"/> Local	<input type="checkbox"/> Other (Specify)
16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment.)										
<p>I certify that the methods of Implementation and Financing and audit plans are in compliance with the Payment Verification Policies.</p>										
<p><i>James B. Sanford</i> 9/18/92 James B. Sanford Controller</p>							18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION			
17. APPROVED BY		Signature Mosina H. Jordan		Title Regional Director						Date Signed MM DD YY 09/21/92
							MM DD YY			

PROJECT AUTHORIZATION

Name of Grantee: Organization of Eastern Caribbean States (OECS)

Project Site: Antigua and Barbuda, British Virgin Islands, Dominica, Grenada, Monserrat, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines.

Name of Project: Caribbean Policy Project

Number: 538-0184

1. Pursuant to Sections 103 and 531 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Caribbean Policy Project ("Project"), for the benefit of the Organization of Eastern Caribbean States (OECS) the ("Grantee"), involving planned obligations of not to exceed 12 Million United States Dollars (\$12,000,000) in grant funds ("Grant") over a five year period from the date of authorization, subject to the availability of funds in accordance with the A.I.D. Operating Year Budget allotment process, to help in financing foreign exchange and local currency costs for the Project.

2. The Project consists of activities that support: a) the provision of accurate, timely, and relevant statistics on economic parameters of the OECS countries; b) policy analyses; and c) policy development, consensus building, and implementation. It provides technical assistance, training, some equipment, and operational assistance to promote the adoption of macroeconomic and sector policies that will lead to increased trade and private sector investment, and position the states of the Eastern Caribbean to sustain economic growth.

3. The Project Agreement, which may be negotiated with the Grantee 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 terms, covenants, and conditions, together with such other terms and conditions as A.I.D. may deem appropriate.

A. Source and Origin of Commodities, Nationality of Services.

1. Commodities financed by A.I.D. under the Project shall have their source and origin in the United States, except as A.I.D. may otherwise agree in writing. The suppliers of commodities or services shall have the United States as their place of nationality, except as provided below in Section A.2. or as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Project shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States.

2. Local procurement of commodities and services from the member states of the OECS for a total amount of not to exceed \$8,700,000 is authorized.

B. Conditions Precedent to Disbursement.

First Disbursement. Prior to the first disbursement under the Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

(a) An opinion of the Attorney of the Grantee that this Agreement has been duly authorized and/or ratified by, and executed on behalf of the Grantee, and that it constitutes a valid and legally binding obligation of the Grantee in accordance with all of its terms; and

(b) A statement of the name of the person holding or acting in the office of Director General and of any additional representatives, together with a specimen signature of each person specified in such statement; and

(c) Evidence that the Grantee has established a separate, interest-bearing account for Grant funds.

Subsequent Disbursement. After satisfaction of the conditions precedent listed above, disbursements under the Grant shall be available to finance project start-up costs, such as staff salaries, office expenses, and regional travel, and also technical assistance for the purpose of assisting with the completion of the items set forth in Sections (b) and (c) below. Disbursements also may be made directly by A.I.D. to finance project specific activities. All such disbursements shall be agreed to by the Parties in countersigned Project Implementation Letters.

Prior to other disbursements of project funds under the Grant, or to issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance acceptable to A.I.D.:

(a) A time-phased implementation plan for the first year of the project which includes the time-frame, relevant details, and assigned responsibility for the following:

- establishment of a project office;
- hiring of a Project Coordinator and support staff for the Regional Implementation Unit;
- development of the terms of reference for an institutional contractor or consortia of institutional contractors to provide goods and services to the project;
- scheduling of initial country visits and development of country work plans;
- establishment and composition of the Project Advisory Committee;

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(b) Evidence that a commodities and technical services procurement system, satisfactory to A.I.D. standards of competition, has been established; and

(c) Documentation outlining: i) the requirements of the project proposal process by which participating countries and institutions will access project resources; ii) a standard set of criteria for supporting proposals; and iii) a standardized format and content for the implementational sub-grant agreements, including management and reporting responsibilities. The Grantee shall incorporate sub-grant procedures satisfactory to A.I.D. requirements.

C. Special Covenants

Organizational Setting. The Grantee shall, except as A.I.D. may otherwise agree in writing, establish the Regional Implementation Unit in a convenient location determined by the Grantee, so that the Unit can benefit from existing administrative and policy mandate of the Economic Affairs Secretariat of the Organization of Eastern Caribbean States and its regional and national affiliates.

Project Evaluation. The Parties agree to establish an evaluation program as part of the Project. Except as the Parties otherwise agree in writing, the program will include, during the implementation of the Project and at one or more points thereafter:

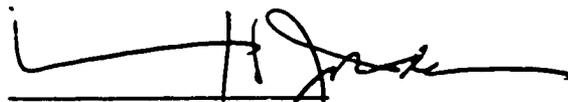
- (a) evaluation of progress toward attainment of the objectives of the Project;
- (b) identification and evaluation of problem areas or constraints which may inhibit such attainment;
- (c) assessment of how such information may be used to help overcome such problems; and
- (d) evaluation, to the degree feasible, of the overall development impact of the Project.

Annual Project Implementation Plans. The Grantee shall submit annually to A.I.D. for review and approval, comprehensive, time-phased implementation plans and operational budgets for activities to be carried out under the Project. The implementation plans shall be submitted to A.I.D. by the end of the first month of years 2-6 of the Project. These plans will comprise all the activities to be conducted by the Project during the year ahead, and will consider the optimal utilization of Project and cooperating country resources in implementation of this Project. The Annual Implementation Plans shall include:

- a statement of the regional outputs and outcomes to be targeted for the period;
- project activities grouped by project component;
- responsible parties for cooperating in and executing each activity;
- resources required from project and cooperating agencies;

- time-phased schedule of activities, and
- assumptions.

Project Start-up. The Grantee shall provide such personnel and other resources as are required to start up the project, including developing the terms of reference for and hiring permanent project staff. The Grantee will submit to A.I.D. for review and concurrence the nominations (supported by recent C.V. and other relevant data) of candidates for all Project-funded staff positions following an agreed schedule for filling these positions. Following satisfaction of the conditions precedent to the first disbursement, the Grantee covenants to utilize project financed technical assistance to establish procurement and sub-grant procedures adequate to implement the project and in accordance with A.I.D. standards.



Mosina H. Jordan
Director, RDO/C
9/21/92

Date

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CLEARANCES:

DSmith:C/ANRO (Draft)

BPosner:A/C/PDO (Draft)

EMcPhie:A/C/PRM (Draft)

AEisenberg:RCO AE 9/16/92

DLuten:RLA DL 9/15/92

JSanford:CONT JS 9/18/92

BBurnett:D/DIR BB 9/19/92

**EASTERN CARIBBEAN POLICY PROJECT
538-0184**

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LIST OF ABBREVIATIONS/ACRONYMS

ADCU	Agricultural Diversification Coordinating Unit
A.I.D	Agency for International Development, Washington
ANRO	Agriculture and natural Resources Office/RDO/C
CAIC	Caribbean Association of Industry and Commerce
CARICOM	Caribbean Community (and Executive Secretariat)
CDB	Caribbean Development Bank
CIDA	Canadian International Development Agency
CPP	Caribbean Policy Project
EAS	Economic Affairs Secretariat (of the OECS)
ECCB	Eastern Caribbean Central Bank
ECODEF	Eastern Caribbean organization of Development Foundations
EEC	European Economic Community
IaDB	Inter-American Development Bank
NDF	National Development Foundation
NGO	Non-Governmental Organization
ODA	Overseas Development Administration (British Aid)
OECS	Organization of Eastern Caribbean States
PACD	Project Assistance Completion Date (USAID)
POD	RDO/C Program Objectives Document
PSC	Personal Services Contractor (USAID)
RDO/C	Regional Development Office/Caribbean (USAID)
RIU	Regional Implementation Unit (attached to OECS/EAS)
USAID	United States Agency for International Development
WID	Women in Development

I. SUMMARY AND RECOMMENDATIONS

A. Recommendations

The Regional Development Office for the Caribbean recommends authorization of the Caribbean Policy Project for \$12.0 million from the Food and Nutrition, Private Sector, Energy and Environment and Economic Support Fund accounts, and that a Project Grant Agreement be negotiated with the Organization of Eastern Caribbean States (OECS) with an initial obligation of \$2.0 million in FY 1992.

B. Summary Project Description

The Regional Development Office for the Caribbean (RDO/C) has targeted policy analysis and implementation in the Eastern Caribbean for development assistance via the Caribbean Policy Project (CPP). This decision supports a broad and growing awareness on the part of private and public sector leaders in the region that they face new and sometimes daunting challenges in responding to world economic changes, as well as political and economic changes within the region. There is also a growing awareness on the part of the public sector that its private sectors are the true "engines of growth," and that new avenues have to be explored for greater private sector investment in the economies through their participation in the policy process.

The project goal is to make the Eastern Caribbean more economically competitive in the international marketplace. The project purpose is the adoption of macroeconomic and sector policies that will lead to increased trade and private sector investment, and position the states of the Eastern Caribbean to sustain economic growth.

The objective of the project is to assist the OECS countries to adopt growth-oriented macroeconomic and sectoral policies. In this context, the project strategy is to support the work of governments and private sector representatives in exploring policy options, reaching consensus on policy modifications, and implementing important trade, private investment and sectoral growth policies.

The project's strategy is not one that aims simply for more impractical studies to satisfy academic and theoretical curiosity. Rather, the strategy is one that seeks to provide necessary information, planning assistance and implementational resources to be used where there are national, sub-regional, or regional initiatives for policy revision or existing agendas for growth oriented policy modification. Project resources may be used for data base development, analysis, consensus building and implementational support. A basic assumption behind the project strategy is that there is substantial motivation in the OECS countries to review policies bearing on economic growth and to improve upon them. By filling specific resource gaps, the project can assist national, sub-regional, and regional organizations to realize the improvements.

The project will be carried out through three major components which are designed to fit the

policy agenda and priorities of each country, in whatever sequence the countries determine is important. Some countries may have sufficient data for policy consideration and wish to proceed to Component Two - Policy Analysis. Others may have sufficient analysis and require only policy implementation assistance - drawing on Component Three resources. In other words, countries may take advantage of any project component assistance at any point they choose.

The first component will focus on reducing the policy impediments arising from unreliable data and inadequate information systems. The activities undertaken as part of this project component are designed to result in the broad availability of more accurate, timely and relevant statistics and data bases in the OECS for use by governments and private sector in policy analysis.

The second will address the need for additional in-depth analysis of economic policies. The activities undertaken under this component of the project may, for example, include the preparation, collation and dissemination of detailed information on: the structure and effects of trade regimes of the OECS countries and their trading partners; the economic environment (both national and regional) for establishing and operating a broad array of businesses; and the development conditions facing investors in specific sectors of the economies of OECS countries. This information will be used in recommendations for policy improvement/implementation and will be made available to appropriate institutions at the national and regional levels involved in policy development.

The third component and most important component will assist in specific policy development, consensus building and implementation. It is designed to support initiatives that call for: detailed implementation plans following the adoption of a particular policy orientation; consensus building workshops, seminars, or meetings at the national and regional levels; training in support of policy implementation; and operational assistance for institutions responsible for implementing policy.

An OECS Regional Implementation Unit (RIU) will have primary responsibility for managing the project on behalf of the participating national, subregional (OECS) and ultimately regional (CARICOM) private and public sector institutions. In this capacity, the RIU will serve as a clearing house for coordinating and directing the component activities and reviewing all requests for assistance from participating institutions, and serve as the central source for technical assistance and operational support to the participating institutions. It will be affiliated with the OECS Economic Affairs Secretariat, which has a mandate to support policy development and implementation from its member states.

A Project Advisory Committee (PAC) will provide advice and guidance from participating public and private sector institutions in the region. The principal functions of the PAC will be to regularly review progress, comment on workplans, and provide guidance on overall implementation. The PAC will also provide a forum to conduct policy dialogue on issues emanating from the project and ensure that constituents in various organizations and countries are fully informed.

Resources will be accessed through the proposal process. Proposals will be submitted by project participants directly to the RIU for review. Upon review, the RIU will either recommend approval or disapproval of the proposals. Those that are recommended for approval will be passed to the EAS and RDO/C for final concurrence. Resources will be provided to execute the proposals directly to the submitter or through the RIU on behalf of the submitter institution. Development of proposals can be assisted by the RIU through its resident staff and short-term technical assistance. However, the participants must initiate the proposal and be prepared to commit their own resources to developing proposals.

Standards for considering proposals will be based on a standard set of criteria. These criteria will include the following:

- Relevance to strategic focus on trade liberalization, diversification, private sector development, sectoral growth, and related sectoral policy issues;
- Relevance to the investment sector diagnostics conducted by the IDB/CDB;
- Evidence of improving the foreign exchange position of the country;
- Relevance to national/regional economic policy orientation;
- Evidence of private/public sector collaboration as designers and recipients;
- Agreement that studies or analyses financed by the project become public information.

The exact composition of proposals will depend upon the nature of the particular policy issue and the existing availability of information, reliability of data, analytical and implementation requirements, etc. The proposals will not be acceptable if the purpose is to fund an already occurring activity or to provide on-going budget support.

C. Financial Summary

RDO/C funds will finance technical assistance, operational and logistical support, training and procurements of small equipment. RDO/C contributions to the project will amount to \$12.0 million. Section 110 of the Foreign Assistance Act of 1961 does not impose a requirement for counterpart contributions, given that this is a regional project.

The project will be financed via a Handbook 3 Project Grant Agreement to the OECS. The OECS will in turn negotiate and award contracts and grants to suppliers and participating institutions, or request that A.I.D. negotiate and award contracts and grants on its behalf.

II. BACKGROUND AND RATIONALE

A. Background

The eight countries of the Organization of Eastern Caribbean States (OECS)--Antigua and Barbuda, British Virgin Islands, Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines--lie widely scattered across 80,000 square miles of the Caribbean Sea. Their economies are small, highly protected, import-dependent, and rely principally on tourism and agriculture for foreign exchange. The key agricultural export, bananas, currently benefits from a protected European market.

The economies of the OECS have few natural resources and are vulnerable to factors over which they have no control, such as external demand cycles and hurricanes. Yet each island nation enjoys certain areas of possible comparative advantage and the potential for growth in a changing world economy. Their natural environment provides the microstates both their most promising opportunities and their greatest developmental problems.

Sustained growth over the decade of the 90's will become increasingly difficult in light of intense competition for investment and markets throughout the globe as a growing number of nations adjust to trade-based, market oriented economies. Market relationships also are changing.

The Regional Development Office for the Caribbean (RDO/C) has targeted policy analysis and implementation in the Eastern Caribbean for development assistance via the Caribbean Policy Project (CCP). This decision supports a broad and growing awareness on the part of private and public sector leaders in the region that they face new and sometimes daunting challenges in responding to world economic changes, as well as political and economic changes within the region itself, and that the tools and processes in place to respond to these forces are in many cases unequal to the task.

There is also a growing sub-regional awareness on the part of the public sector that its private sectors are the true "engines of growth," and that new avenues have to be explored for greater private sector participation in the policy process. For its part, the private sector is becoming more vocal in its desire for such participation, even as it is cognizant of its present shortcomings in policy analysis capability.

As Europe moves toward a single market and unifies its treatment of imports from preferred areas, OECS banana exports, now sold at preferential prices in the U.K., will eventually face stiffened competition. Compounding this difficulty for the OECS is the uncertainty associated with the outcome of the Uruguay Round of negotiations under the auspices of the GATT. At issue is the treatment and pricing of all agricultural commodities in the U.S. and Europe (and by extension, most of the rest of the world). Meanwhile, the Enterprise for the Americas Initiative (EAI) and the North American Free Trade Agreement (NAFTA), comprising initially the enormous markets of the U.S., Canada and Mexico, hold out the promise of almost

unlimited markets for those countries that can gain entry, but potentially threatens those that cannot.

As these international events take shape, countries of the OECS must prepare to exploit their advantages. For example, tourism is expanding, but sustainable growth may be restrained by policies which increase costs without producing significant benefits. Policies appropriately formulated and implemented can increase tourism investments, thus ensuring long-term growth. Tourism, as the region's leading industry, can be the source of growth in related productive and service sectors, and policies which expand opportunities in these sectors can be explored. Other traditional exports, such as agricultural goods, must contend with demand that will be influenced by significant changes in world trading relations. Opportunities in non-traditional exports can be explored as well.

B. Economic Setting of the OECS

Economic performance in the OECS countries has been reasonably good over the past five years. When compared to other developing countries, the OECS displays higher rates of growth, lower inflation, and reasonable economic management. Growth in real per capita income has fallen in the range of from 5 to 8 percent per year since 1985. Inflation has been in the 2 to 4 percent range. Some slowing of economic growth has occurred in several countries in 1990 and 1991, but that can be attributed to hurricane Hugo (late 1989), to recessions in the economies from which the majority of tourists come - i.e., the U.S. Canada, and the U.K., and from the depression in tourist travel associated with the Gulf Crisis. There are also important differences among countries. For example, research indicates that in 1991, per capita income in Antigua (\$5,463) was almost four times the per capita income for the poorest of the group, St. Vincent (\$1,655).

The public sector plays a large role in all of the OECS countries. Dominica and Antigua's public expenditures occupy about 24 and 26 percent of GDP respectively, which is moderate by developing country standards, but all the other countries are above 30 percent. Again, there is considerable variation in both the size of the public sector and how the public sector has been managed. For example, public expenditure management in Antigua has been difficult despite its moderate size. Likewise, Grenada, too, has developed a debt problem, but it is due to both excessive expenditures and a failed fiscal reform.

In the other OECS states, while the role of government may be large, it is better managed than in Antigua and Grenada. In Dominica, after several years of small fiscal surpluses, deficits rose to about 10 percent of GDP in 1990 and 1991. These are associated with several large capital expenditure projects. However, financing for these is mostly on concessional terms and it is unlikely that they will result in the same arrears problems found in Antigua and Grenada. St. Kitts, too, ran large fiscal deficits in 1988 and 1989, associated with the construction of the Southeast Peninsula Highway. In St. Lucia, fiscal finance has been very conservative, even though the island has very high public expenditures. Fiscal surpluses occurred in the 1987-90 period, which went to reduce domestically held debt. Meanwhile, St. Vincent has not taken on

ambitious investment projects in the past five years, and has normally run small fiscal surpluses.

The countries of the OECS have open economies, with imports usually exceeding 80 percent of GDP. Indeed, imports are the key to growth in the OECS. Most inputs to production, of good quality and at lowest price, must be imported. Thus, large public expenditures, particularly capital expenditures run the risk of creating balance of payments problems that may be difficult to manage. Currently, serious balance of payments problems exist for only Antigua and Grenada.

The OECS countries are spared the major problem facing most developing countries. Because the ECCB is prohibited from financing fiscal deficits, the OECS countries cannot engage in inflationary monetary expansion that normally accompanies fiscal deficits. Sound management at the ECCB has been the main reason for keeping inflation low in the OECS.

Since the EC dollar is rigidly tied to the U.S. dollar, real effective exchange rate changes for the EC dollar mirror those of the U.S. dollar. Generally the EC dollar appreciated slightly during the 1980-85 period, but the appreciation was much less than that of the U.S. dollar since inflation in the OECS was less than in the U.S. During the 1986-90 period, the EC dollar depreciated by approximately 7 to 10 percent as the U.S. dollar depreciated. For most countries in the OECS there has occurred the equivalent of a slight devaluation since 1980.

The sectoral composition of production in the OECS is based primarily on manufacturing, agriculture and tourism. These sectors are most-often identified as the "productive sectors," though one must take care with this idea. Activities that do not fall in these categories normally account for well over 30 percent of GDP. These activities include banking and insurance, transportation, wholesale and retail trade, and others. Thus, the economic importance of these activities must be factored into the overall composition of sectoral productivity.

The manufacturing sector in the OECS generally accounts for only 5 to 8 percent of GDP, though in Antigua it accounts for only about 3 percent. Most manufacturing that still exists is a result of protectionist policies that were favored not only by CARICOM countries, but by many developing countries of the world. Such policies encouraged a course of import substitution that was supposed to lead eventually to mature industries with export potential. High import duties were levied on final manufactured goods, and low or no duties were applied to intermediate inputs. This pattern of duties led to rates of "effective protection" that far exceeded nominal levels. Thus, inefficient industries were encouraged to come into existence. The World Bank and others point out that manufacturing within CARICOM and the OECS is declining and will probably continue to do so. This decline will accelerate should protective measures be removed. This may affect employment in the short run, but it should not affect export potential.

Agriculture is one of most important sectors in the Windward Islands of the OECS, but its importance varies by country. Antigua has very little agriculture (3.6 percent of GDP in 1990). St. Kitts has somewhat more (7.4 percent of GDP), but about half of that is concentrated in

sugar. Thus, without sugar, agriculture in St. Kitts is no more important than it is in Antigua.

The fact that the Windward Islands, (Dominica, St. Lucia, St. Vincent and the Grenadines and Grenada) are highly specialized in banana production is a problem. Export bananas go to preferential markets in the U.K. That preferential market is threatened as the European Community single market comes into being at the end of 1992. Even if banana preferences are continued in the near term, they will have a limited future. How to ease the transition to non-banana production, yet take advantage of preferential prices while they exist is an important challenge for these countries.

Agriculture accounts for anywhere from 14.2 (St. Vincent) to 21.1 (Dominica) percent of GDP. However, when one accounts for banana production, there are great differences between these countries. St. Lucia and St. Vincent are heavily specialized in banana production and have not yet significantly diversified their agricultural base. Dominica and Grenada on the other hand have begun to diversify their agricultural base into which farmers displaced from bananas production can fit.

Tourism is the one economic activity in which the islands of the OECS have a demonstrated comparative advantage. In all cases, except that of St. Vincent, tourist arrivals have increased substantially over the decade of the 1990s, and in all cases but Antigua, the pace of tourist arrivals accelerated after 1985. The pace of expansion of tourist arrivals slowed somewhat in 1990 and 1991, but that was probably due to recessions in the markets from which tourists come and to uncertainty associated with the Gulf Crisis. Compounding these factors, Hurricane Hugo caused considerable damage to tourist facilities in the fall of 1989. The fact that tourist arrivals did not drop more during these difficulties is a testimony to the strong competitiveness of the tourist industry in the OECS. During this difficult period, tourist arrivals in many places in the Caribbean declined. In all OECS states, tourist arrivals increased (except in Antigua). Indeed stay-over tourist arrivals increased very rapidly for Dominica and Grenada (56 and 37 percent) and performed well for St. Lucia and St. Kitts (20 and 15 percent).

Tourism is the major source for investment in the region. In recent years, hotel capacity has expanded in all OECS countries at rates exceeding averages for the Caribbean overall. Furthermore there are many projects under way in the region to expand capacity further. For example, one project in Dominica intends to add more than 1,000 rooms, alone tripling Dominica's room capacity. Several projects in St. Kitts could easily increase capacity by one-half. Whether the OECS countries can continue to successfully expand the tourist industry depends on the resources available, tourist tastes and an ability to competitively attract tourists.

The tourist industry has become the single most important source of foreign exchange in most OECS countries. Tourism may have a disadvantage when compared to other activities in that it must import a large proportion of its inputs. Tourism has a great advantage in that almost the entire output of the industry is exported. Thus, despite its high import content, the output of a successful tourist industry is guaranteed to be a net foreign exchange earner. Net services is the balance of payments accounts where foreign exchange earnings from tourism are recorded.

In three countries - Antigua, St. Kitts and Grenada - earnings from net services exceeds those from all exports, and in a fourth case (St. Lucia), they are almost as large as total exports. In all cases but one, net services earnings could "pay for" at least one-fourth of imports, and in the case of Antigua, over-half of import needs. Only in Dominica are net services earnings small in relation to exports and imports, but net service earnings in Dominica have been growing much faster than either exports or imports.

In summary, the OECS countries have done well over the past five to seven years on most dimensions of economic performance. While some would argue that appropriate economic policy has had less to do with it than the ability to obtain "rents" from unique maritime resources and preferential trading relationships, real growth has been sustained, tourism has stepped forward as a dynamic source of growth, balances of payments are not yet showing signs of serious disequilibrium, the exchange rate seems reasonable, inflation has been low, public budgets have been reasonably contained and financed when there are deficits. Sustaining growth depends on appropriate responses to threats to traditional income sources, a new emphasis on growth inhibiting policies, and maintaining reasonable earnings of foreign exchange without destroying the natural gifts that have made the Eastern Caribbean countries unique.

C. Problems to Be Addressed

OECS countries (Dominica is the exception) have natural resources that make them ideal exporters of traditional tourism services. Dominica also has substantial natural resources that can be utilized for this industry, but needs to take a somewhat different marketing approach. Given the nature of the natural resources of the islands, it is difficult to see, at least for the short to medium run, any other industry that offers the same potential for growth. Since it has been argued that the size of these countries mandates specialization in a few industries, it is recommended that, at least in the medium term, development policies be aimed to encourage growth of the tourism industry.

If continued development of tourism is an appropriate goal, then a number of secondary policy issues need to be considered. Diversification in agriculture is a requirement for specialization in tourism, since this will increase the domestic content of consumption in the tourism industry. Agriculture is a major economic activity in all the islands except Antigua. Policies should be developed that promote cost-effective supply of agricultural products for the tourism industry. Agriculture diversification aimed at providing inputs into the tourism industry requires a collection, marketing, processing, and distribution system (product development) that is currently not in place.

Macroeconomic policies such as the tax structure can have direct effects on the price competitiveness of tourism and other industries. With exchange rates fixed to the U.S. dollar and with a high import content to exports, any increase in import or consumption taxes directly increases the price of these activities. The rise in costs is likely to be higher as other costs, such as wages, rise in response to the tariff increase.

Trade liberalization will possibly reduce the price of goods to domestic consumers but reduce government revenues. For trade liberalization to be successful, it should be accompanied by changes in tax structures so that the required revenues are raised with taxes that strike a balance between efficient collection and low levels of good and factor price distortion.

The small size and human capital resource base of the OECS countries argue for regional provision of a number of governmental services. Without losing national sovereignty, it is possible for the nations to contract out to regional offices some of the work that they each currently do. This would reduce the duplication of staffing and effort that is currently taking place. Prime candidates for regional centralization are statistical data base construction, policy analysis, tariff collection and management, tax administration, immigration control, agriculture research and extension services, and maybe even some specialized educational services. It is not recommended that all aspects of these services be centralized, but centralizing specialized services that require highly trained and highly paid professionals can increase the level of service provision and reduce national costs.

Additional regional integration in capital and goods markets are likely to provide some improvements in scale economies and opportunities for investor diversification. Since the costs of achieving these small gains are likely to be small, regional integration of capital and goods markets is recommended.

Transportation costs are one of the obstacles to increased inter-OECS trade, and policies aimed at trade liberalization need to consider ways of reducing those costs. In addition, port charges on some countries are among the highest in the world. These high transport costs and port charges reduce the likelihood of foreign investment in manufacturing for export. Heavier weight items that must be shipped by sea are at a considerable disadvantage because of the transport pricing policies. For those products that can be transported by air (including electronically transmitted products), continued vigilance needs to be directed at providing transport services at reasonable costs. This includes a focus on policies that impact upon the cost of air transport and telecommunications services for the emerging information processing industries.

Trade liberalization should be accompanied by policy efforts to attract industries appropriate to the human capital level of the economies. In trying to attract such industries, the countries of the OECS are in direct competition with U.S. and foreign localities that are also trying to attract investment. Each locality offers a package of resources and concessions to the investors. This implies that the OECS countries need to address their legal and regulatory environment, in addition to tax regimes. In the longer run, localities with better resources (human, infrastructural, or natural) need to make fewer concessions, and some policy attention needs be directed at the longer term attractiveness to investment. Policies are needed to redirect the educational system towards providing skills that meet current and future domestic needs.

Trade liberalization can be a national, regional, or extra regional affair. The EEC is becoming a free market and the United States, Mexico, and Canada are implementing the

NAFTA agreement. While more careful analysis is required, it might be to the best interests of the OECS countries to sign free-trade agreements with one or both of these blocks. If a free-trade agreement can be arranged within the context of a large organization (i.e., CARICOM), that would have a similar effect. (Note: negotiations between CARICOM and the United States with respect to a free-trade agreement are currently in process and need to be encouraged.) The advantage for the OECS countries is tariff-free access to these markets (replacing the Caribbean preferential entry into the U.S. market that appears likely to disappear with NAFTA) for its normal exports or for new enclave industries. The small size of the OECS countries may actually be an advantage in the negotiations, since they present little threat to any important U.S. or European political constituency.

The above discussion outlines some (not all) of the policy "problems" that can be addressed in a project agenda and provides the economic logic for doing so. These problems also are concerns of regional and national interests, and this "demand-driven" characteristic gives additional rationale for focusing on these areas.

The mechanics of addressing policy issues and the adequacy of tools for these tasks present another set of "problems" that are, perhaps, the most difficult limitations to policy reforms. During the project design process, analysts were continuously reminded that the best policy descriptions are ultimately dependent on the quality of the input and the capacity to implement them. It is especially important to note that although the private sector is viewed as the "engine" that will lead new investment, trade and commercial activity, input from the private sector often has been neglected, disregarded, or viewed as opportunistic. Some important limitations are:

- Unreliable, untimely, and irrelevant data;
- Poor information systems;
- Inadequate policy analysis in terms of analytical rigor, depth and relevance to dynamic domestic and international conditions;
- Inadequate input from the private sector;
- Inadequate fora for effective dialogue and consensus building between public and private sector parties;
- Inadequate levels of regional cooperation and integration;
- Inadequate programming of resources to implement policies on which there is consensus; and
- Inadequate administrative and operational capacity in the implementation of policy.

All of these shortcomings need to be addressed in an integrated fashion which succeeds in the elimination of policy constraints which prevent growth. The Caribbean Policy Project is designed to be the principal U.S assistance vehicle for this purpose.

III. PROJECT DESCRIPTION

A. Goal, Purpose, Duration

The project goal is to make the Eastern Caribbean more economically competitive in the international marketplace.

The project purpose is the adoption of macroeconomic and sector policies that will lead to increased trade and private sector investment, and position the states of the Eastern Caribbean to sustain economic growth.

The initial project duration will be five years. Because the Eastern Caribbean states vary widely in the organizational strengths, policy analysis capabilities, and political influence, the pace of project implementation will vary from country-to-country. Thus, a second five-year phase of similar assistance likely will be required. A comprehensive project evaluation will be undertaken in Project Year Four to determine whether a second phase will be necessary.

B. Project Objectives and Strategy

The objective of the project is to assist the OECS countries to adopt growth oriented macroeconomic and sectoral policies. In this context, the project strategy is to support the work of governments and private sector representatives in exploring policy options and reaching consensus on policy modifications by providing timely and comprehensive national and regional data, rigorous analyses, and resources for the implementation of important trade, private investment, and sectoral growth policies.

The project's strategy is not one that aims for more impractical study to satisfy academic and theoretical curiosity. Rather, the strategy is one that seeks to provide the necessary information, assistance, and implementational resources to be used where there is a real demand for policy modifications. A basic assumption behind the project strategy is that there is substantial motivation in the OECS countries to consider economic growth policies along with social and environmental factors and to effect private sector growth.

The project will be responsive to and support OECS member country initiatives to analyze and implement appropriate policy responses to changing external and internal economic conditions. The project could support a country's response to aspects of the Enterprise for the Americas Initiative to be implemented through the Inter-American Development Bank and the Caribbean Development Bank. The process for accessing the resources of the Initiative is taking shape. Although it is unclear what level of resource will be available to OECS members,

accessing its resources will entail the undertaking of investment policy reform for each country as recommended in "investment sector diagnostics". In this regard, the IADB, the CDB and A.I.D. have agreed to fund the diagnostics as a first step. The project then will support the countries of the OECS to develop responses to the diagnostic appraisals through: 1) the further analysis of the impacts and feasibility of implementing certain reform options; 2) activities to build public and private sector consensus on reform options; and 3) managerial, technical and operational assistance to implement selected reforms.

Geographic Focus of the Project

The project will initially focus on countries within the OECS. Thus, the implementation arrangements and level of effort as described below are based on this focus. However, it is expected that this focus will include working relationships within the greater CARICOM or possibly outside of CARICOM for certain issues and problems which have a wider regional impact, but which by their nature are linked to the policy and business environment of the OECS. Such problems may be addressed by the project with OECS concurrence. RDO/C may broaden the project in the future to include other CARICOM countries, but this will require a project amendment and additional funding.

C. Project Components and Activities

The project will be carried out through three major components. The first component will focus on reducing the policy impediments arising from unreliable data and inadequate information systems. The second will address the need for in-depth analysis of economic policies. The third component assists in specific policy development, consensus building and implementation.

Pending the establishment and initiation of operations of a Regional Implementation Unit and a Project Advisory Committee, OECS governments and other institutions are invited to submit proposals for initiation of activities in Components 1, 2 and 3. AID and the OECS Economic Affairs Secretariat jointly will review and determine which proposals merit support. AID may be requested directly to support such proposals.

1. Component One - Statistics and Data Base Development

The activities in this component will be undertaken in conjunction with the OECS Economic Affairs Secretariat (EAS) and other regional institutions and are designed to result in the broad availability of more accurate, timely and relevant statistics and data bases in the OECS for use by governments and private sector in policy analyses.

- a. Activity One - Master Plan for Statistical and Data Base Development. This activity will create an implementation plan for strengthening and/or creating the statistical bases relevant to trade, private sector and economic growth policies. It first will identify availability and adequacy of current data required to analyze and make rational decisions.

Secondly, it will design a master implementation plan to obtain the additional data. The implementation plan will incorporate the input of a broad array of public and private sector institutions and reflect the data required to support their policy analyses agendas.

- b. **Activity Two - Execution of Project-Specific Elements of the Master Plan.** This activity supports: 1) collaborative working relationships between public and private sector institutions in the implementation of the network; 2) the establishment of standards and quality controls; 3) short-term training related to the execution of the master plan; 4) evaluation and improvement of statistical procedures; and 5) discrete, critical survey and data base activities. The project, through its implementation unit, will assure broad dissemination of information on project supported activities.

One possible element that may be supported under this activity is a joint donor-OECS project for establishing a harmonized system of customs, fiscal and trade data. A System for Customs Data, otherwise known as ASYCUDA, has been initiated in some OECS countries by the United Nations Conference on Trade and Development (UNCTAD) with multilateral support. It establishes in each country a PC-based system for handling and accounting for customs declarations, tariffs, import and export licenses and a host of other trade and fiscal information. The project may support efforts to establish the system in each OECS country; train customs agents to use the system; customize each system for a particular country's tariff and trade regime; generate relevant trade data; and establish a network between OECS countries.

Another specific element of this activity is to support ongoing efforts to generate accurate and timely national accounts. National accounts encompass extremely important data on macroeconomic and sectoral economic activity, levels of investment, income, savings, employment, trade, among other topics, and are essential to the policy formulation process.

There are several problems with national accounts collection that can be addressed by the project. Foremost is the task of bringing public and private sector parties together to discuss the relevance of the exercise, proper implementation arrangements, user access, and overall improvements. This dialogue will identify possible shortcomings; e.g. in enumerator skills to be addressed by training or processing weaknesses to be addressed by technical assistance for system configuration and/or equipment. The point is that project assistance to improve national accounts will be an important contribution to the policy process.

2. Component Two - Policy Analyses

The activities undertaken in conjunction with the OECS/EAS and other regional bodies will result in the preparation, collation and dissemination of detailed information on: the structure and effects of trade regimes of the OECS countries and their trading partners; the environment for the establishment and operations of a broad array of businesses at the national level; and

development conditions facing investors in specific sectors of the economies of OECS countries. This information will be made available to institutions at the national and regional levels involved in policy development.

- a. **Activity One Development and Documentation of Information on the Trade Regimes of the OECS.** The objective of this activity is to develop and document the information on the trade regimes in the OECS that is necessary to support dialogue and decision-making regarding trade policy at the national, regional and international levels. This activity is not intended to design any specific trade policy. Rather, the main idea is to anticipate that trade policy issues will arise, perhaps in the context of NAFTA, the single European market, the single CARICOM and OECS markets, or as trade issues are discussed at the national level.

The method recommended is to utilize the data base developed in "Component One" and conduct research that fully describes the nature and effects of trade regulations, and the potential effects of modifications to those regulations. There are several tools to use for inventorying and measuring trade regulation effects, such as effective protection coefficients, "measures of aggregate support", and computer-based simulation models. The project will support the application of those considered most appropriate for clients of the project. It will be important to take stock of the various tariff and non-tariff measures, as well as the "concessions", "commitments", and other parameters classified under the framework of world trade (GATT). Then, it will be particularly important to analyze their actual and potential effects.

- b. **Activity Two - The Development and Documentation of the Policy Environment for Business in the OECS Countries.** The objective of this activity is to undertake case studies of a wide range of business activities at the national level in order to assess the clarity of regulations that businesses face in establishing themselves and in their day-to-day operations. The methods used will be case studies, itemizing the steps and processes that are followed in the formation and operation of businesses. The process will develop charts showing the time and other costs applied to each step. The case studies may deal with, for example, hotel construction or food processing operations. These studies would trace the transactions conducted by local businessmen and foreigners; transactions in major sectors, such as agriculture and manufacturing; financial transactions, e.g. borrowing, lending, making transactions involving foreign exchange; and transactions by small businessmen, e.g. farmers, hucksters, shop owners.

The information provided by the case studies will lead to the identification of follow-on activities that could be addressed by project resources. For example, a study could indicate that institutional weaknesses were causing invisible delays in processing applications for business formations, import or export, loans, etc. Then project funds could be approved for training, operational assistance, technical assistance and/or equipment to ameliorate such problems for the respective institution.

- c. **Activity Three - Sector Assessments.** The objective of this activity will be to further refine efforts to accumulate and analyze important data on specific sectors such as 1) agriculture, tourism, services, industry, commerce. In tourism, this activity will support initiatives at the national and regional levels to conduct appropriate assessments of tourist expenditures, distinguishing them by nationality of tourist, local value added, inputs, hotel cost structures, impacts of trade measures, levels of local services, human resource levels, environmental practices and issues, among other topics.

In other sectors, such as agriculture, the assessments will identify growth opportunities, and contribute to the process of public and private sector investment programs. For example, in Dominica, an agricultural assessment, conducted in the context of that country's diversification objectives, contributed to the information base on non-traditional crops (structure, costs, markets, supporting services). The assessment led to the development of a national diversification strategy, partially funded by donors, that directs public sector spending toward the facilitation of private sector production, processing and marketing of non-traditionals. It also has led to a Cabinet-level decision to review the incentive structure for non-traditional crops.

3. **Component Three - Demand Driven Policy Development, Consensus Building, and Implementation**

The focus on policy areas that will assist the private sector to again its role as the economic engine of growth requires that the development of policies involve the private sector with its public sector counterparts in all elements of the policy processes - from policy development, to consensus building, and implementation. Processes exist or are under development in Antigua, Dominica and Grenada, which recognize the importance of policy dialogue and consensus building for the purposes of crafting a development strategy, discussing policy concerns of the moment, organizing to respond to a longer term objective, and discussing policy implementation mechanisms. The objective of this component will be to build upon, strengthen, and support these recent and promising trends.

Policy development, consensus building, and implementation call upon representatives from both the public and private sectors to cooperate in examining the nature of economic development issues and to arrive at a consensus regarding their resolution. The project will support proposals which fall into the following set of activities:

- a. **Activity One - Policy Development.** On the basis of the information generated and disseminated in Components One and Two above, and other initiatives, the project will support the further analysis of policy issues in order to develop feasible alternatives. At their request, technical assistance will be channeled to collaborative working groups at the national or regional levels to address and resolve outstanding analytical or operational issues.

- b. **Activity Two - Consensus Building.** The objective of this activity is to enhance the consultative process, ranging from the level of individual institutions attempting to build a consensus on a particular issue to those aimed at establishing longer term consultative mechanisms for the purposes of addressing a broader policy agenda, such as the policy review committees established in Antigua, Dominica and Grenada. Support will be available for the purposes of executing workshops, seminars, conferences on particular policy issues, and to disseminate policy information, through newsletters, meetings, and other media.
- c. **Activity Three - Policy Implementation Planning and Execution.** Once consensus has been obtained on a policy direction, the project will support implementation planning and execution. Support will be provided on the basis of proposals submitted by policy implementing agencies or organizations, and may come in the form of technical assistance, training, operational assistance, and equipment, linked to the policy implementation process. While not designed to cover all costs, when project resources are combined with an institution's own and other donor resources, this activity will contribute to the critical mass of support that is necessary for implementation of improved policies. For example, the implementation of a new tariff regime may call for specialized assistance, training, equipment, or operational assistance that is specific to the particular policy measure. The establishment of a centralized "one-stop office" for business transactions with government may require a new office, publicity, new forms, equipment, etc. Likewise, the privatization of a parastatal enterprise hypothetically could utilize technical assistance on an employee stock purchase scheme or the sale of assets in another manner, specialized training for management and employees, operational assistance for the transitional period, specialized equipment to realize the privatization objective, and so on.

While not exhaustive, the possible areas for implementation assistance will be in:

- key export-related institutions, such as customs agencies, tourism boards, front line ministries;
- legal or regulatory institutions;
- financial institutions;
- privatizations;
- investment, trade and business development institutions.

D. Institutional Arrangements

1. **OECS Regional Implementation Unit (RIU)** - Within the OECS, the Economic Affairs Secretariat (EAS) exists as its executive arm on economic policy. The mandate of the EAS is

to: a) assist the individual states in specific areas of economic policy and advice; b) conduct annual reviews of the state of the OECS sub-regional economy, and assess the impact of shifts in global economic conditions and trading relationships; and c) evaluate effects of certain national policies on the sub-regional economy. When possible, it can provide economic consultancy and assistance in the preparation of projects.

A Regional Implementation Unit for the project will be attached to the EAS. The RIU will have primary responsibility for managing the project on behalf of the participating national, subregional (OECS) and ultimately regional (CARICOM) private and public sector institutions. In this capacity, the RIU will serve as a clearing house for coordinating and directing the component activities and reviewing all requests for assistance from participating institutions. This will include activities associated with data base and statistics development, policy analyses as well as policy development activities associated with proposals submitted by participating institutions. The RIU will articulate the activities in annual work plans and submit workplans to the EAS and A.I.D. for final approval. The project advisory committee (PAC) will also review and concur on the workplans prior to final approval by EAS and A.I.D. (see PAC).

The RIU will serve as the central source for technical assistance and operational support to the participating institutions who will be involved in the component activities, coordinate the execution of the activities approved in the workplans and maintain the overall implementation schedule of the project.

The RIU will prepare periodic reporting requirements for RDO/C and the EAS, coordinate all meetings of the PAC, and prepare periodic newsletters, conduct seminars and other public awareness events aimed at demonstrating benefits and impact of project interventions.

The RIU will be professionally staffed by a full-time Project Coordinator and an economist. They will be supported by a Procurement Specialist, Administrative Assistant and a Secretary. These professional and administrative positions will be locally recruited by the OECS and/or loaned to the RIU by the OECS and funded by the project. Technical and training assistance will be provided to the administrative staff of the RIU and the OECS/EAS to strengthen their capability to administer and manage project funds and execute contracts and grants.

CPP's success will in large part be a function of its leadership—at least in its early stages. The misgivings expressed by private sector representatives regarding the ability of a public sector organization to manage a project whose chief beneficiary is the private sector, were expressed often in the project design process. These concerns can be at least partially allayed if the selection criteria for the Project Coordinator include a strong private sector background. Ideally, the incumbent should possess organizational skills as well. Prior experience in a leadership position within a private sector organization would be a definite asset, as would familiarity with trade, private sector development and tourism policy issues that the region is facing. Experience in policy advocacy would prove a benefit, as would experience in proposal preparation. In short, identification and selection of a dynamic leader from the private sector is something to be considered.

The RIU staff will be complemented by technical assistance to be provided under a direct A.I.D. contract. Resident advisors, short and long-term technical assistance, short-term training, logistical support, workshop and seminar arrangements, and equipment will be provided under this contract. Depending on the results of a mid-term project evaluation, the contract may be modified during the last two years of the project.

The RIU will be a technical arm of the EAS in a similar capacity as the TROPRO Project serves the OECS/ADCU and the ENCORE Project serves the OECS/NRMU. However, the RIU will be dedicated to carrying out the project and its components. Given the anticipated workload of the project and the importance of acting expeditiously on key policy matters, it is important that the RIU be given clear management responsibility, including staff to carry out the project. Thus, the functions of the RIU will be distinguished from the normal functions of the EAS but closely coordinated with the EAS. Close liaison between the RIU and the OECS Secretariat in St. Lucia, RDO/C, other donors, as well as the EAS and the CARICOM Secretariat, will be important as it relates to broad regional initiatives and global political events.

2. Project Advisory Committee (PAC) - The concept of the PAC was endorsed at the St. Lucia design workshop. The concept of the PAC is to provide advice and guidance from participating public and private sector institutions in the region. The principal functions of the PAC will be to regularly review progress, comment on workplans, and provide guidance on overall implementation. The PAC will also provide a forum to conduct policy dialogue on issues emanating from the project and ensure that constituents in various organizations and countries are fully informed. The PAC will formally concur on proposals recommended by the RIU.

Initially, official membership of the PAC will include the OECS economic policy review committee already established. It additionally will incorporate members from the private sector, representing key productive areas. Observer status will be extended to regional private and public sector institutions based on their active participation in project activities.

The PAC will meet at least semi-annually. The PAC will also provide recommendations to their respective constituents in each country.

3. Role of A.I.D. - RDO/C will assign a full-time project officer from among its direct-hire staff, to be responsible for project oversight and monitoring of the project. The project officer will have frequent contact with the RIU and other high level personnel from participating institutions. The project officer will have a designated counterpart in the EAS.

The project officer will monitor and assess project activities, review and approve workplans and other project reports. He (she) will attend PAC meetings to ensure that they are appropriate, timely and consistent with project objectives. In addition, the project officer will provide guidance on A.I.D. regulations and procedures to the RIU and to the technical assistance contractor(s), and other counterpart personnel. He (she) will interface with other donors and organizations to ensure proper coordination.

The project officer will be the individual within A.I.D. responsible for preparation of various project documents (PILs, PIOs, etc) and for processing financial instruments.

4. Role of EAS - The EAS will assign a staff person as counterpart to the RDO/C project manager. The EAS officer will be responsible for oversight from the EAS perspective and ensure the counterpart recruitment of staff for the RIU, and that other support functions such as procurement and accounting systems are properly engaged to conduct project activities. The EAS officer will ensure that coordination of the project with other donor assistance is maintained. Close interaction and frequent contact between the EAS officer, the RIU project coordinator and the RDO/C project officer is essential.

The EAS will be the formal avenue for communicating results of the project (i.e., policy options) to Ministers and Heads of Government.

5. Role of Participating Institutions - The project will be open to all private and public sector institutions who are interested in pursuing policy development consistent with the goal, purpose and strategic focus of the project. Priorities must be set by the RIU to maintain strategic focus and complete critical activities within specific timeframes using the available resources of the project. Institutions will participate as a function of these priorities. Participation will be determined as a function of the component activities.

A major strategic objective of the project is to involve private sector institutions (organizations) in the project. The composition of the private sector in the OECS countries consists of a broad range of institutions including Chambers of Commerce, Hotel Associations, Small Business Sector, Employer's Federations, National Development Foundations, Hucksters Associations, Farmer's Associations, Credit Unions, Labor Unions, Taxi Associations and others. At the OECS sub-regional level, the private sector is not well organized but attempts to form umbrella institutions are emerging (e.g., ECODEF and the OECS private sector development council). Likewise, CAIC, acts as a forum for certain private sector interests at the CARICOM regional level. The CFDC and the CECM are also emerging regional private sector organizations. On the public sector side, government ministries, (particularly ministries of planning) departments of immigration, customs, agriculture, etc, as well as various parastatal type organizations and NGO's are concerned with economic policy issues. Regional institutions such as the OECS and its special units (e.g., EAS, ADCU, NRMU), the ECCB, the CARICOM Secretariat, the CTO, etc., also have a clear stake in policy matters.

As part of the strategic focus of the project, priority will be given to policy development based on proposals that are demand driven by collaborative public and private sector groups. In addition, priority will be initially given to activities that emanate at the national level. In this context, the project will give priority to public and private sector collaborating between institutions that demonstrate commitment to policy development consistent with the strategic focus.

E. Relationship of Project to Mission Program Objectives

The RDO/C strategy seeks to increase OECS trade and investment by supporting the sub-region's transition to a more competitive world trade environment. To promote broadened and diversified trade, RDO/C intends to focus and concentrate resources on the productive sectors which generate export earnings, particularly from agriculture and tourism, or save foreign exchange.

The Mission's primary programmatic emphasis will be the promotion and adoption of policies that reduce distortions in the economies of the OECS. Assistance and activities will be concentrated on three key areas that affect trade and investment: policy analysis and development, institutional strengthening, and policy implementation. Important complementary emphases will be accorded to natural resource planning and management, the development of a maintenance culture to preserve investments in infrastructure, expanding required and appropriate workforce skills, and support for a safety net to maintain essential social services which enhance productivity.

F. Relationship to Bureau and Agency Objectives

The project supports the LAC Bureau objective of achieving broadly-based, sustainable economic growth and also specifically complements the following sub-objectives:

- o the adoption of and continued adherence to economic policies that promote investment, productive employment, and export-led economic diversification;
- o a vigorous response by the private sector to a favorable policy environment.

Many of the constraints to trade in the Eastern Caribbean sub-region at present are the result of inappropriate policies and regulations. The Caribbean Policy Project will be the centerpiece of RDO/C's efforts to focus attention on policy and regulatory change and support the implementation of Enterprise for the Americas Initiative in the region. In addition, the proposed Private Sector Institutional Development Project, scheduled to begin in FY 93, and a program of non-project assistance to support policy implementation, scheduled for approval in FY 94, will directly complement the policy project support the Bureau objective and sub-objectives.

G. Relationship to Development Strategies of Caribbean States

The sub-region increasingly recognizes the need to become more competitive in world trade. Indeed, the West Indian Commission, established by CARICOM in 1989 to help West Indians prepare for the next century, noted in a recent progress report that the Caribbean cannot "...pursue an economic course independent of international economic currents. The region must seek to compete fully on international markets...in areas where we identify opportunities to exploit our own strengths." The conclusion that policies must change to help make the

Caribbean an able competitor is widely accepted. The project strategy and emphasis complements development thinking in the Caribbean.

H. Relationship to Other Donor Programs

All significant donors in the Eastern Caribbean are emphasizing market-oriented economic policy reforms. The emphasis is focused on reducing government presence in the economy, stimulating and facilitating private sector investment and promoting export led growth in lieu of protectionist import substitution strategies. Some are disbursing on the basis of government decisions to make recommended reforms and others are lending assistance for the identification and implementation of reforms in macroeconomic and sectoral areas.

The World Bank and the IMF are continuing their focus on macroeconomic performance, and are basing their assistance on adjustments that would reduce the growth of government expenditures and inflationary tendencies, increase revenues, privatize state enterprises, and generally move government operations to more balanced and sustainable bases.

The Caribbean Development Bank and the InterAmerican Development Bank are working on policy-based lending programs in macroeconomic and sectoral areas. Both are jointly preparing and administering the investment sector diagnoses of the OECS countries, the Investment Sector Lending Program, and the Multilateral Investment Fund (MIF) of the Enterprise for the Americas Initiative (EAI). Each of these will entail the identification and implementation of investment sector policy reforms as the basis for eligibility for loans. In addition, the loans of both development banks in such sectoral areas as infrastructure, agriculture, education, etc. carry policy based conditionality, designed to increase the economic returns of the loans and make their timely repayment plausible.

The CPP project will help countries of the OECS to respond to the EAI diagnostic appraisals, as well as the recommendations of other donor programs through: i) further analysis of impacts and feasibility of implementing certain reform options; ii) activities to build public and private sector consensus on policy options; and iii) managerial, technical, and operational assistance to implement selected reforms. The project will be instrumental in supporting OECS country participation in fora, meetings, and sector assistance requests regarding the EAI and other IADB sponsored programs.

The UNDP is supporting the analysis and planning for the goal of the OECS political union. The union would require, among other things, the harmonization of economic policies, environmental standards, and legislation within all the OECS territories. The UNDP and the FAO also are involved in planning and technical assistance for improvements in statistical systems.

The Canadian International Development Agency (CIDA) is embarking on the second phase of the Eastern Caribbean Economic Management Programme (ECEMP II) with the general purpose of strengthening economic policy analysis and financial planning and management

capabilities of OECS governments. It will be affiliated with the OECS Economic Affairs Secretariat. The estimated life of project funding is approximately US \$ 12.0 million. Besides sharing a common affiliation to the OECS EAS, the CPP will be closely coordinated with this Canadian-financed project, possibly to the extent of sharing office space, jointly developing work plans.

The USAID project is designed to complement and support the initiatives of all of the above-mentioned donors. It will have the unique feature of focussing and seeking input of the private sector in policy identification and implementation, and will provide implementational resources where other donor resources are insufficient or unavailable. The RDO/C Project Manager and the EAS Officer will regularly meet with CIDA and OECS counterparts to ensure maximum project effectiveness and avoid overlap and duplication.

IV. IMPLEMENTATION PLAN

A. Access to Project Resources

Participating institutions will access project resources through two mechanisms. These mechanisms are initiated by proposals for policy related activities that are elaborated in collaboration between the RIU and the participating institutions.

1. Project Resources Administered by the RIU. The development of a master plan for acquiring trade statistics (Component 1, Activity A), for example, will be a collaborative effort between national and regional institutions. The inputs for this activity, i.e. technical assistance, workshops, etc. will be specified jointly by the RIU and participating institutions but administered by RIU on behalf of the participating institutions. Likewise for certain policy analysis or policy workshops, the RIU may administer the inputs for these activities on behalf of the collaborating institution or institutions.

With respect to these data base development activities, the RIU in collaboration with participating national institutions will elaborate the specific proposal for these activities (see below). Based on a review of the proposal and its relevance to project objectives, A.I.D. and the EAS will authorize procurement of the necessary inputs. The RIU will access the inputs via host country and A.I.D. direct contracts, with the distinction between the chosen instrument being whether the procurement is denominated in U.S. dollar or local currency, the overall value of the procurement, and the contracting capability of the RIU/EAS. Specific guidance regarding the use of host country contracts will be developed and issued in the early stages of the project. Technical assistance, short-term specialized training, commodities and operational support, and other related costs will be provided through these contract instruments.

2. Project Resources Administered by the Participating Institutions. In many foreseeable instances of policy development, consensus building, or implementation, participating institutions, both private and public, will access resources from the project and administer them

directly to achieve the project's policy-related objectives. The instrument used in these instances will be a sub-grant to the participating institution, where the institution has made a clearly defined proposal for a discrete activity (see below).

Examples of the sub-grant mechanism might be: a sub-grant to CARICOM to analyze or implement a single market/single customs union in the OECS countries; a sub-grant to the United Nations Conference on Trade and Development to support a multilateral effort to establish the ASYCUDA trade data and monitoring system in the OECS; sub-grants to Ministries of Finance to help implement a modified CET regime, monitor revenues, and project fiscal surpluses or deficits in a timely manner; sub-grants to private sector umbrella organizations to publicize the opportunities and offer tax planning assistance under a new tax regime, etc.

The procurement, fiscal management, and implementation capabilities of the sub-grantee, as well as the selection, sub-granting and monitoring capabilities of the RIU, will be important for accessing project resources. The specific set of selection criteria and capability for awarding sub-grants that are consistent with A.I.D. regulations will be developed in the RIU with project-financed technical assistance and specified in a Project Implementation Letter in the early stages of the project. A limited number of A.I.D. direct grants may be implemented prior to establishing RIU capability.

3. Proposal Criteria. Project resources will be accessed through the proposal process. Proposals will be submitted by participating institutions directly to the RIU for review. Upon review by the RIU, the RIU will either recommend approval or disapproval of the proposals. Those that are recommended for approval will be passed to the EAS and RDO/C for final concurrence. Those that are not approved by EAS and RDO/C will be returned to the submitting institution(s) with explanation and critique.

OECS governments and other institutions are invited to submit proposals for initiation of activities in Components 1, 2 and 3 that can be implemented prior to establishment of RIU and PAC. Acceptable proposals will receive direct-A.I.D. agreements on behalf of the RIU.

Development of proposals can be assisted by the RIU by its resident staff and short-term technical assistance. However, the submitting institutions must initiate the proposal and be prepared to commit its own resources to developing the proposal.

Standards for considering proposals will be based on a standard set of criteria. These criteria will be elaborated upon by the RIU, and formalized in a Project Implementation Letter issued by A.I.D. within the first six months of the project. The criteria will be uniformly applied to all proposals submitted for review. Criteria will include the following:

- Relevance to strategic focus on trade liberalization, diversification, private sector development, sectoral growth, and related sectoral policy issues;
- Relevance to investment sector diagnostics conducted by the IDB/CDB;

- Evidence of a connection to improving the foreign exchange position of the country;
- Relevance to national/regional economic policy orientation;
- Evidence of private/public sector collaboration as designers and recipients;
- Agreement that studies or analyses financed by the project become public information.

Structurally, proposals should contain the following elements:

- Background/Setting;
- Issue/Need Identification, Justification and Clarity of Presentation;
- Replicability across sectors nationally and cross-nationally;
- Need for Technical Assistance, Research, Training, Commodity Support and Operations Support;
- Impact: Anticipated Outcome; Perceived Benefits
- Economic/Financial Impact
- Institutional Impact
- Social Impact
- Environmental Impact, if applicable
- Dissemination Plan
- Cost Proposal and Procurement Plans
- Implementation Plans

The exact composition of proposals will depend upon the nature of the policy issue and the existing availability of information, reliability of data, analytical capability, implementation requirements, etc., to accurately pursue the proposal. Proposals are expected to cost up to \$250,000. The project anticipates conducting about 40 such proposals during the life of the project. Proposals will not be acceptable if the purpose is to refinance an already occurring activity or to provide on-going budget support.

B. Proposed Implementation Schedule

The first annual work plan and budget will be prepared and submitted by the joint management/technical assistance team (i.e., the Regional Implementation Unit) within 60 days after being staffed. Upon review by the EAS and A.I.D., it will be the formal operational and financial management plan for the year. A certain degree of flexibility will be maintained in addressing unforeseen activities, and it will be possible for the PIU to submit requests for amendment of the work plan and budget as necessary.

OECS governments and other institutions are invited to submit proposals for initiation of activities in components 1, 2 and 3 that can be implemented prior to establishments of RIU and PAC. Acceptable proposals will receive direct A.I.D. agreements.

In the absence of specific requests for assistance, the Year one work plan will commence with activities in trade research and statistics and data base development. In addition, the RIU will draw upon suggested activities derived from the Project Paper, advice from RDO/C and OECS, and unsolicited proposals to identify work elements for its first year activities. Depending upon timing, it should be possible to take advantage of the findings generated by the "Diagnostics" planned to be undertaken in each of the OECS countries by the Caribbean Development Bank and the IADB as part of EAI/MIF activities, to provide policy specific issues to address. Significant time in the first year will be spent intensively marketing the project.

The Year two and subsequent work plans, on the other hand, will reflect the proposal submission and approval process. That is, requests received from national and regional organizations for support in addressing policy issues will be evaluated, prioritized and selected. Each component will be prioritized by the RIU. It is expected that this prioritization process will not be a single "up or down" decision on any individual request process. Rather, the RIU may solicit more information, dialogue with the proposers regarding suggested modifications, combine similar requests from several countries, or even suggest inclusion of representatives in an activity proposed by counterparts in another country.

The RIU will, should it prove necessary to reject a proposal, communicate directly with the entity proposing the activity in writing, and explain why such a proposal was not supported. These unsuccessful proposals will also appear in summary form, in an annex of the work plan with a brief explanation of the reason for funding denial.

This explication of work plan elements is not meant to imply that after Year one the only activities will be related to policy proposals. Directed research and statistics and database development activities will continue, as will the important work of consensus building. Flexibility to respond to events should be built into this effort.

Other elements to be included in the work plan will include an annual progress report, updated level of effort allocation and budget to date, proposed level of effort and budget.

Benchmarks Calendar

The proposed timing sequence for the first fifteen month activity period for project is as follows:

<u>ACTIVITY</u>	<u>DEADLINE</u>
Grant Agreement signed with OECS	Sept. 30, 1992
First RDO/C-OECS news release describing CPP, its components, and resource access process	Oct. 15, 1992
Release of Technical Assistance RFP	Nov. 31, 1992
Appointment of OECS management staff	Dec. 30, 1992
Second CPP news release/update	Dec. 30, 1992
First quarterly progress reports due	Mar. 30, 1993
Project implementation team building meeting	Mar. 31, 1993
Selection of Technical Assistance contractor	Apr. 15, 1993
Draft work plan submitted to Project Advisory Committee for review	Apr. 15, 1993
First semi-annual meeting of Project Advisory Committee to comment on work plan	June 15, 1993
Project work plan revised, submitted and approved	Jul. 15, 1993
First quarterly newsletter circulated	Aug. 1, 1993
Year Two, grant requests deadline	Oct. 30, 1993
Year Two Work Plan draft completed and circulated	Nov. 15, 1993
Project Advisory Committee meeting to review Year Two Work Plan	Dec. 1, 1993

V. COST ESTIMATES AND FINANCIAL PLAN

A. Cost Summary and Source of Contributions

The following table presents a illustrative summary of costs anticipated under the project through its five year implementation period. RDO/C will provide its contribution in grant funds over the life of the project.

RDO/C funds will finance technical assistance, operational and logistical support, training and procurements of small equipment. RDO/C contributions to the project will amount to \$12.0 million. Section 110 of the Foreign Assistance Act of 1961 does not impose a requirement for counterpart contributions, given that this is a regional project.

The project will be financed via a Handbook 3 Project Grant Agreement to the OECS. The OECS will, in turn, negotiate and award contracts and grants to suppliers and participating institutions, or request that A.I.D. negotiate and award contracts and grants on its behalf.

TABLE 1.
SUMMARY COSTS AND SOURCE OF CONTRIBUTION OF
CARIBBEAN POLICY PROJECT
(US \$000).

Project Component	RDO/C Contribution
1. Statistics and Data Base Development	1,800.0
2. Policy Analysis	1,200.0
3. Policy Development, Consensus Building, and Implementation	5,380.0
4. Regional Implementation Unit	1,994.0
5. Audits	250.0
6. Evaluation	175.0
7. Contingency and Inflation	1,201.0
Totals	12,000.0

B. Detailed Project Budget and Obligation Schedule

The specific RDO/C-supported costs by project component/activity and project year are presented in Table 2. Each cost element is described and linked to a disbursement plan by year of project operation. An A.I.D obligation schedule is in Table 3.

A.I.D. Financial Inputs

1. **Statistics and Data Base Development** A total of \$1,800,000 is allocated to this component to support planning, conferences and workshops, technical assistance, training, computer equipment, and implementation of statistics and data base activities.

a) **Master Plan for Statistical and Data Base Development (\$150,000)**. A.I.D. grant funds will support the salary and logistical support (travel and per diem) costs of technical assistance in the preparation of the plan for statistics and data base development and implementation of specific activities. A estimated six months effort, at \$25,000 per month, is anticipated in the preparation of the plan. The costs will be incurred in the early stages of the project so as to guide subsequent activities in this project component.

b) Conferences, Publications, Mailings, Data Dissemination (\$90,000). A.I.D. funds will support the preparation and execution of national conferences and follow up costs for statistics and data base development activities. On the basis of 25 participants per conference lasting two days, an average cost of \$5,000 per conference was estimated. This will cover costs such as: meeting hall arrangements, rented equipment, coffee breaks, lodging and per diem for participants from neighboring countries, honoraria for professional speakers, follow-up documentation, mailings, etc. A total of eighteen such conferences are anticipated over a five year project life. At least one such conference will be held in each of the six OECS countries in the first year to assist in the design and implementation of the project-supported statistics and data base work. In later years, three such conferences will be held annually in the region.

c) Technical Assistance for Standards, Quality Control, Evaluations, Design, and Execution of Statistics Network Elements (\$900,000). A.I.D. will fund technical assistance for design, implementation, and evaluation of specific survey work in the OECS countries at a rate of two person months per survey at \$25,000 per person month. The total allocation to this is calculated over eighteen surveys over a five year period. Such assistance will go towards the design of sample frames, standardization of statistical methodologies, management of survey teams and activities, computer programming, and other technical assistance requirements.

d) Short Term Statistical Training Events (\$180,000). A.I.D. funds will support the participation of thirty six statistical staff of national or regional bodies in short courses over the life of the project. The estimated participant cost is \$5,000, which covers the cost of travel, tuition, room and board for 2 to 8 week courses in the U.S. Courses will be in such areas as: trade statistics; national accounts methodologies; data base establishment and analytical systems; survey statistics and methods; and others.

e) Survey Execution (\$360,000). A.I.D. funds will support the costs of enumerator assistance for eighteen surveys over the life of the project. The cost basis is two person months per survey, and is estimated at \$10,000 per person month to cover salary and logistical support (travel, supplies).

f) Computer and Networking Systems(\$120,000). A.I.D. funds will be used to procure current PC systems and networking equipment to modernize the statistical capabilities of six national and two regional institutions. The systems would comprise 486 processors, monitors, adequate hard drives, data base and statistics software, dot matrix and laser printers, modems, scanners, LAN hardware and software, uninterruptable power supply and line conditioners, and other accessories. The estimated cost of the systems, to be specified in greater detail in a master plan for data base development, is \$15,000 per system. A.I.D. M/SER/IRM (AID/Washington) must approve funding for this procurement, once the procurment specifications are developed.

2. Policy Analyses A total of \$1,200,000 is earmarked in the project for technical assistance and training to national and regional policy making bodies for analyses of trade regimes, business case studies, and sector assessments.

a) Development and Documentation of Trade Regimes in the OECS (\$300,000). Given the strong regional interest in trade issues, twelve person months of technical assistance will be provided within the first two years of the project to document and analyze the trade regimes in the OECS countries. Approximately two person months per country is the basis of the estimate. The cost per person month of \$25,000 comprises salary and logistical support (travel, per diem, materials, supplies)

b) Private Sector Case Studies (\$300,000). A.I.D. will fund twelve business case studies in the OECS requiring a total of twelve person months. The case studies will be done in the first two years of the project to identify the constraints facing specific types of business. Each person month is estimated to cost \$25,000 in salary and logistics costs.

c) Sector Assessments (\$600,000). A.I.D. will fund twelve sector assessments requiring two person months per assessment. There will be an average of two assessments per country done over a four year period. These assessments will be done in specific sector areas - such as tourism, commerce, industry, manufacturing, etc at the request of public and private sector institutions. Again, the estimated cost per person month is \$25,000 in salary and logistics costs.

3. Policy Development, Consensus Building, and Implementation. A.I.D. will provide a total of \$5,380,000 in technical, operational, training, and commodity assistance under this component.

a) Policy Development (\$250,000). A.I.D. will fund an estimated ten person months of short term technical assistance over the last four years of the project to develop specific policy alternatives. The assistance will be provided to both public and private sector institutions. Such assistance will come from legal, economic, managerial, and technical professionals at a cost of \$25,000 per person month for salary and logistical support.

b) Regional Workshops, Conferences, Seminars, and Meetings (\$250,000). The project will fund ten regional policy events, two per year, over the life of the project. The estimated cost of \$25,000 will cover conference facilities, conference facilitators, coffee breaks, travel and per diem of an estimated 50 participants per two day conference, conference materials, guest speakers, and the reproduction and mailing of documentation.

c) National Workshops, Conferences, Seminars, Meetings (\$180,000). A.I.D. funds will support an average of four consensus building conferences per year in each of the six OECS countries. The estimated cost per conference covers facilities, facilitators, conference materials, coffee breaks, and distribution of conference documentation for 50 participants per conference.

d) Newsletters, and other Media Dissemination of Policy Information (\$50,000). A.I.D. will fund efforts of national and regional public and private sector institutions to disseminate and build consensus on policy alternatives through mailings, newsletters, radio spots, and other

media. An estimated \$10,000 per year will be expended in the region for this activity.

e) Implementation Planning (\$300,000). A.I.D. funds will finance twelve months of short-term technical assistance in implementation planning, management and administration. The estimated cost is \$25,000 in salary and logistical support.

f) Implementation Training(\$200,000). A.I.D. funds will support specific short term training of OECS nationals in subjects directly related to the trade, private sector, and sectoral growth focus of the project. This training will focus on implementation aspects of policy, i.e. implementation management/administration, special technical skills necessary for policy implementation. An estimated twenty five persons per year for four years will be trained at a cost of \$2,000 per person. The cost comprises U.S source instruction materials, trainers, and related costs.

g) Implementation Equipment (\$150,000). A.I.D. will finance computer, copier, and office equipment specified in the implementation proposals approved by the project. Fifteen packages, consisting of a mid-range computer system, copy machine and fax machine will be provided to institutions involved in implementing policies at an average cost of \$10,000 per package.

h) Implementation/Operational Subgrants (\$4,000,000). A.I.D. will indirectly finance partial local currency costs of policy implementation at the national level. Sub-grants not to exceed \$250,000, except with the agreement of A.I.D., will be awarded to institutions for the purposes of financing needed short-term staffing or severance, local retraining costs, logistics, office refurbishing, form printing, policy publications and advertising, and other local costs associated with policy implementation. Sub-grants will be provided on the basis of clearly defined policy implementation workplans (proposals) that are consistent with the focus of the project. An estimated 40 such sub-grants over the five year period will be awarded with an average value of \$100,000.

4. Regional Implementational Unit. A.I.D. will finance the costs associated with the staffing, operations, and administration of a Regional Implementational Unit for the project. A total of \$1,994,000 will be allocated to the RIU.

a) Professional and Support Staff (\$1,419,000). A.I.D. will finance the salaries of three professionals (Coordinator, Economist, Procurement Specialist), and two support staff (Administrative Assistant, Secretary) of the RIU for the five year project life. Short term technical assistance for the purpose of establishing the financial management and procurement capacity of the unit will be financed in the early stages of the project. Salaries range from \$65,000 to \$16,000 in the first year, with annual increments of 4-6 percent. The range in salaries in the last year of the project is \$79,000 to \$20,000.

b) Miscellaneous Operations (\$575,000). A.I.D. will finance the operational costs of

the Unit for the five year project life. Travel and per diem costs of \$25,000 per year (\$125,000 LOP) are based on estimated travel and per diem costs for a two day trip in the region of \$500. The Unit Coordinator and Economist will take an estimated 50 such trips per year for project promotion, monitoring, and oversight. In addition, the unit will support some of the travel of OECS/EAS personnel in so far as their travel supports the objectives and work plan of the unit and project. An additional 30 two-day trips per year by OECS staff will be sponsored (\$15,000). Telecommunications (faxes, telephone calls) are estimated at \$10,000 per year (\$50,000 LOP). Reproduction and printing costs are estimated at \$15,000 per year (\$75,000 LOP). Mailings (express and regular) are estimated at \$15,000 per year (\$75,000 LOP). Office furnishings (desks, chairs, cabinets, tables, air conditioners, dividers, lights, etc) and equipment (computers, fax, copier) costing \$20,000 and \$30,000 respectively are estimated for the first year of the project. Office rental, including utilities, is estimated at \$25,000 per year.

5. Other A.I.D. Inputs. A.I.D. will finance yearly audits (\$250,000 LOP), evaluations in the second and fourth years of the project (\$175,000 LOP), and make allowances for contingency and inflation at 10 percent of all project costs (\$1,200,000 LOP).

**TABLE 2.
DETAILED ILLUSTRATIVE A.I.D. BUDGET
(\$US 000s)**

STATISTICAL AND DATA BASE DEVELOPMENT	Calculation Basis	FY One	FY Two	FY Three	FY Four	FY Five	Totals
a) Master Plan for Statistical and Data Base Development	Six person months of salary and logistical support @ \$25,000/month	100	25	25			150.00
b.1) Conferences, Publications, Mailings, Data Dissemination	Eighteen conferences @ \$5,000/conference and related publication, mailing and dissemination costs	30	15	15	15	15	90.00
b.2) Technical Assistance for standards, quality control, evaluations, design and execution of statistics network elements	Two person months of salary and logistical support @ \$25,000/month per survey for 18 regional and country level surveys	100	200	200	200	200	900.00
b.3) Short Term Highly Tailored Statistical Training Events	Thirty-six national and regional statistical staff @ \$5,000/event	20	40	40	40	40	180.00
b.4) Survey Execution	Part Time Enumerator Assistance of two person months for 18 Surveys @ \$10,000/month	40	80	80	80	80	360.00
b.5) Computer and Networking Systems	Six national and two regionally based systems @ \$15,000/system	120					120.00
SUB TOTAL:		410.00	360.00	360.00	335.00	335.00	1,800.00

POLICY ANALYSIS							
a) Development and Documentation of Trade Regimes in OECTS	Twelve person months of assistance @ \$25,000/month for salary and logistical support	150	150				300.00
b) Private Sector Case Studies	Twelve Case Studies requiring one person month of assistance @ \$25,000/month for salary and logistical support	150	150				300.00
c) Sector Assessments	Twelve Sector Assessments requiring two person months of assistance @ \$25,000/month for salary and logistical support	0	225	225	150		600.00
SUB TOTAL		300.00	525.00	225.00	150.00	0.00	1,200.00

POLICY DEVELOPMENT, CONSENSUS BUILDING, AND IMPLEMENTATION							
a) Policy Development	Ten person months of technical assistance @ \$25,000/month for salary and logistical support	0	75	75	50	50	250.00
b.1) Regional Workshops, Conferences, Seminars	Ten regional events @ \$25,000/event	50	50	50	50	50	250.00
b.2) National Workshops, Conferences, Seminars, Meetings	Four per country per year for five years @ \$1,500/event	36	36	36	36	36	180.00
b.3) Newsletters, and other Media Dissemination of Policy Information	\$10,000/year for five years	10	10	10	10	10	50.00
c.1) Implementation Planning	Twelve person months of assistance @ \$25,000/month for salary and logistical support		75	75	75	75	300.00
c.2) Implementation Training	Twenty five people per year @ \$2,000/person		50	50	50	50	200.00
c.3) Implementation Equipment	15 Computers, 15 copiers, and 15 fax machines		50	50	50		150.00
c.4) Implementation/Operational Assistance Sub-Grants	Operational support to regional and national institutions @ \$1.0 million/year		1000	1000	1000	1000	4,000.00
SUB TOTAL		96.00	1,346.00	1,346.00	1,321.00	1,271.00	5,380.00

REGIONAL IMPLEMENTATION UNIT							
a) Professional and Support Staff	Coordinator	65	68	71	75	79	358.0
	Administrative Assistant	28	30	32	34	37	161.0
	Procurement Specialist	58	60	63	67	71	319.0
	Economist	62	65	68	71	75	341.0
	Secretary	16	17	18	19	20	90.0
	Six Months of Technical Assistances for Establishing Financial Management and Procurement Capacity in the EAE/RU @ \$25,000/month	150					
b) Miscellaneous Operations	Travel Per Diem	40	40	40	40	40	200.0
	Telecommunications	10	10	10	10	10	50.0
	Reproduction/Printing	15	15	15	15	15	75.0
	Mailings	15	15	15	15	15	75.0
	Office Furnishings	20					30.0
	Office Equipment	30					30.0
	Office Rental	25	25	25	25	25	125.0
SUB TOTAL.		534.0	545.0	557.0	571.0	587.0	1,994.0
AUMS EVALUATIONS	Yearly Audits	50	50	50	50	50	250.0
	Evaluations		75		100		175.0
SUB TOTAL.		50.00	125.00	50.00	150.00	50.0	425.0
TOTAL OF COMPONENTS		1,390.00	1,701.00	1,338.00	1,327.00	1,043.0	10,799.0
CONTINGENCY AND INFLATION	10 Percent of Total	139.00	270.10	213.80	212.70	126.3	1,301.0
ANNUAL TOTALS		1,529.00	2,971.10	2,571.80	2,559.70	2,169.3	12,000.0
GRAND TOTAL.		12,000.0					12,000.0

TABLE 3.
A.I.D. OBLIGATION SCHEDULE BY FISCAL YEAR
(\$000s)

FY 92	FY93	FY94	FY95	FY96	Total
2,000	3,000	3,000	3,000	1,000	12,000

C. Financing Mechanisms

The following table presents a summary of A.I.D. financing mechanisms and input costs anticipated under the project through its five year implementation period. As indicated, inputs will be procured by the RIU/OECS or by A.I.D. on behalf of the RIU. All resources procured with project financing will be administered by the Regional Implementation Unit, subject to A.I.D. approval and monitoring of procurement and workplans.

TABLE 4.
SUMMARY OF A.I.D. FINANCING FOR PROJECT
(\$U.S.000s)

ITEM	METHOD OF IMPLEMENTATION	FINANCING MECHANISM	AMOUNT (U.S.\$000)
1. Technical Assistance (Regional and U.S.)	A.I.D. Direct Contract with Institutional Contractor	Direct Payment	3,310.0
2. U.S. Based Training	A.I.D. Direct Contract with U.S. Training Institutions (PIO/P)	Direct Payment	380.0
3. Equipment Purchases	A.I.D. Direct Contract/Purchase Orders with U.S. Suppliers	Direct Payment	320.0
4. Regional Implementational Unit and Operations	OECS Personal and Non-Personal Contracts, and Purchase Orders with Regional Suppliers	Direct Reimbursement	1,794.0
5. Regional/National Workshops, Seminars, Conferences, Newsletters, Publications	OECS Contracts and Purchase Orders with Regional Suppliers, or U.S. institutional contractor	Direct Payment or Reimbursement	570.0
6. Implementation Sub-grants to Regional and National Public and Private Sector Institutions	OECS Sub-grants	Direct Reimbursement	4,000.0
7. Audits	OECS Contracts with CPA	Direct Reimbursement	250.0
8. Evaluations	A.I.D. Direct Contracts	Direct Payment	175.0
9. Contingency/Inflation	NA	NA	1,201.0
Totals			12,000.0

D. Procurement Plan

The project is appropriate for minority and or Gray Amendment institutional participation, including historically black colleges and universities. The grantee and the TA contractor, if a non-Gray Amendment organization, will be encouraged to employ Gray Amendment individuals or firms. They also will be given guidance on how to identify and access the services of these institutions.

This project will seek to maximize procurement from the United States, in accordance with the Agency's Buy America policy. That policy allows procurement from non-U.S. sources and origins, subject to the approval of the Mission Director. The following information supports the proposed procurement of goods and services from both U.S. and non-U.S. source and origin. Approval of this Project Paper by the Mission Director will constitute approval of the proposed procurements.

The source of technical assistance is expected to be a major U.S. institutional contractor with extensive experience providing policy analysis and implementation assistance in the Caribbean and other regions of the world. As this contractor may enter into consortial relationships with regional institutional contractors and universities, about 50 percent of the value of the technical assistance contract will be used to procure locally sourced TA. This will be an advantage when implementing the project, due to the familiarity of local experts with the target institutions, personnel, and culture.

Other technical assistance will be procured to execute audits and evaluations. The majority of this assistance is expected to be U.S., although local CPA firms and regional institutional contractors may join in the activities. The estimated value of all TA is \$3.735 million.

The project will finance U.S.-based short term training at an estimated cost of \$380,000.

Equipment purchases, having an estimated value of \$320,000, will be sourced in the U.S. and procured directly by A.I.D. on behalf of the RIU through U.S. suppliers. Consideration will be made in the development of the scope of work of the technical assistance contractor to include procurements of this equipment as part of its scope.

The professional and administrative staff of the RIU, as well as other direct costs of operations of the unit will be provided locally through OECS purchase orders, personal services contracts, and lease/rental/service agreements. All costs are expected to be denominated in local currency and are estimated at \$1.719 million. Any U.S. dollar procurements will be source in the U.S.

Regional and national workshops seminars are expected to be included in the technical assistance contract as well. The reasons for this are to ease the administrative burden of the OECS, and in the case of the engagement of U.S. based speakers, academics, and professionals for these events, the U.S. contractor will be in a good position to access them. Nevertheless, three-quarters of the costs, estimated at \$570,000 are expected to be local.

The largest budget item, "Implementational Sub-grants", will have minor amounts of U.S. source and origin procurements. The bulk of the procurements will be from local sources in local currency. These sub-grants will be structured according to the guidelines contained in A.I.D. Handbooks and will incorporate standard provisions for U.S. dollar procurements of U.S. goods and services when called for.

Contractors for implementational activities will be selected competitively according to A.I.D. procurement guidelines. Actual procurement and financial management procedures will be finalized after the initial project obligation, and these procedures will be applied to all contractors and sub-grantees. Technical assistance will be provided to the OECS and the RIU to establish the capability necessary for the Contracts Office and Mission Director to certify their capability in this area. Nevertheless, the Mission does not anticipate the OECS/RIU getting involved in procurements or sub-grants for more than \$250,000.

VI. MONITORING, EVALUATION, AND AUDIT PLAN

A. Project Monitoring. Project monitoring efforts will be provided by RDO/C and the OECS/EAS representatives, or what is normally called, project officers. The officers' main function will be to ensure the effective implementation of the project's activities. This will be done in part by:

- Careful examination and provision of final approval for annual work plans
- Selection and approval of project personnel committed to project goals and objectives
- Meeting with the implementation staff on a regular basis
- Receiving and approving progress reports
- Attending annual Project Advisory Committee meetings
- Liaising with donors to maximize coordination and minimize duplication
- Undertaking periodic field visits to participate in implementation activities
- Development of contracting and sub-grant instruments and procedures to facilitate provision of project resources, and maximize participation of the private sector

The Regional Implementation Unit will be required to submit quarterly reports, in which discussion and measurement of progress against the project log-frame will be documented.

Special note should be made of the fact that the proposal format, discussed above, provides an excellent tool to collect information on project outputs and economic, social, and institutional impacts, both projected and actual. Prior to implementation, the projections of the proposals can be registered on a data base. Upon completion of the proposal work, the project management team and evaluators can return to take measurements of actual progress. In short, the proposal format can be used as a project information tool, as much it will be utilized as a triggering mechanism for access to project resources. This will be part of reporting requirements established in the Project Agreement and any technical assistance contract.

B. Evaluation Plans. Two evaluations are anticipated during the life of the project. The first such evaluation, to be undertaken at the end of year two of project implementation, will have the general objectives of:

- measuring project progress against log-frame indicators;
- assessing project administrative and institutional arrangements;
- documenting project activities to date;
- measuring the degree of project acceptance and utility to targeted beneficiaries in the public and private sector;
- documenting the direct or indirect impacts of project activities on policy improvements in the region;
- identifying mid-course administrative and technical modifications that could make for more efficient and effective implementation.

The detailed scope of work for the first evaluation will be developed jointly between A.I.D. and OECS project officers. An evaluation team, which includes project staff and outside evaluators will be selected for the work.

The second evaluation will be initiated in the fourth year of the project. It too will be expected to measure project progress against log frame indicators and its contributions to an improved policy environment. It will have the additional objectives of assessing the sustainability of the project activities and the need for continued A.I.D. support for policy activities in the region. The scope of work for the evaluation will be developed jointly by A.I.D. and the OECS/EAS.

C. Audit Plans. A.I.D. recently has incorporated revised audit provisions into its operations Handbooks (3 and 13) which must be included in all project agreements with A.I.D. recipient organizations. The revised provisions call for annual financial audits of A.I.D. agreements by independent auditors. Execution of the audits are the responsibility of the recipient. The content of these audits will be:

- an audit of the recipient's (in this case the OECS/EAS) Fund Accountability Statement for the project agreement showing project revenues, expenditures, and cash balance;
- a review of internal controls and compliance (including questioned costs) related to the agreement; and
- a follow up review on status of prior year audit recommendations;

It is the recipient's or Grantee's responsibility for ensuring that all sub-recipients or sub-

grantees receiving \$25,000 or more under this project comply with the above audit requirements.

A.I.D. has prepared statements of work to be used for the audits which will be made available in a Project Implementation Letter early on during project implementation. The A.I.D. project officer and Controller's Office will assist the OECS/EAS in the identification and contracting of an independent auditor. It should also be noted that the project provides the financing for the audits, as well as technical assistance in the initial stages of the project to establish the capacity for procurement according to A.I.D.'s standards.

U.S. contractors receiving in excess of \$25,000 per year are also subject to annual audits. A.I.D.'s Inspector General's Office will be responsible for contracting and supervising these audits, and may use project funds for the cost.

VII. SUMMARY OF PROJECT ANALYSES

A. Institutional Analyses. The success of CPP will ultimately be measured by the vigor with which the private and public sector pursue and implement policies which position the states of the Eastern Caribbean to respond to the challenges of the present and promote future private sector-led growth. Policies of this kind are ultimately debated, enacted, and implemented by elected and appointed public sector representatives. Governments within the sub-region have stated their recognition of the private sector as the chief engine of economic growth, and their commitment to supporting policies which assist their respective private sectors in promoting such growth. How can this be achieved at the OECS and member state levels?

Within the Eastern Caribbean, national public sector leaders established the Organization of Eastern Caribbean States to, ceteris paribus, promote economic integration and political unity. The Treaty of Basseterre (1981) established the authority of heads of government as the supreme policy making institution of the OECS. The OECS heads of government, recognizing the importance of economic policy, established a ministerial level sub-committee (the Economic Affairs Committee) to oversee attention to economic matters, as well as an Economic Policy Review Committee, composed of senior staff of the Economic Affairs Secretariat, the Eastern Caribbean Central Bank, and national-level financial secretaries and heads of planning units.

Within the OECS, the Economic Affairs Secretariat (EAS) exists as its executive arm on economic policy. The mandate of the EAS is to: a) assist the individual states in specific areas of economic policy and advice; b) conduct annual reviews of the state of the OECS sub-regional economy, and assessments of the impact of shifts in global economic conditions and trading relationships; and c) the evaluate of the effects of certain national policies on the sub-regional economy. When possible, it can provide economic consultancy and assistance in the preparation of projects. The EAS was or is the home of several A.I.D. and other donor projects - A.I.D.'s Public Management and Planning Project (the precursor to the Caribbean Policy Project), the Eastern Caribbean Investment Promotion Project, the U.N. Trade and Development Program ASYCUDA project, the Canadian Economic Management Project, among others.

Like the states it represents, the OECS/EAS has also recognized the importance of involving the private sector in economic policy analysis and dialogue. With respect to the latter, the EAS has facilitated semi-annual meetings between the Economic Affairs Committee and the Council of Eastern Caribbean Manufacturers since 1986. It has facilitated similar access for the Council of Labor Unions.

In extended discussions with the EAS, assurances were given that organization viewed the goal and objectives of CPP as desirable from its own point of view. EAS representatives pointed out that they were currently working on development of a small business sector development program (supported by France) which seeks to develop a small and microbusiness sector development strategy. Elements of the project would include policy, human resource development, and technology transfer. They were also discussing the possibility of a trade promotion project with Martinique and Guadeloupe. Other policy projects for which funding is being sought and of relevance to CPP include a trade harmonization legislation and policy project being considered by UNDP, an agricultural diversification project with BDD, and trade and tourism projects under Lome IV.

When queried regarding their preparedness to work with an autonomous private sector-led group which might be developed to represent the policy interests of the OECS private sector, EAS's representatives responded that they would have no problem working with such a group should it come into being (or with the CAIC, for that matter).

Thus, the EAS understands and is prepared to support CPP's goal and objectives at the OECS and national levels. This support will enable the project to achieve considerable economies of scale by locating its sub-regional management and implementation unit in a centralized locale, thereby enabling the project to address both national and OECS level activities.

B. Administrative Analysis. As described in the preceding discussion, the mandate of the Economic Affairs Secretariat of the OECS provides the preliminary rationale for giving it the administrative responsibility for the Caribbean Policy Project. All other national and regional institutions considered in the design work conducted for the project, while perhaps having considerable strengths in the area of economic policy or service provision, lack the set of technical qualifications, policy focus, geographic focus, and project experience that the EAS possesses. For example, the Eastern Caribbean Central Bank is the central monetary authority, but has not been given a general economic policy mandate by the OECS authority. The Caribbean Development Bank is ultimately concerned with its portfolio of loans and grants in the entire Caribbean region. The CARICOM secretariat has a similar mandate to the OECS but covers a much broader set of countries. The University of the West Indies, while possessing administrative and service capacity, lacks a politically influential role in economic policy dialogue and development. National planning and policy units are too diverse and small to be given technical and administrative responsibility for a regional project.

The shallow depth of human resources limits both the technical and administrative capacity of most national and regional institutions, including the EAS. The EAS is organizationally

structured to administer the project, but given the scope and volume of the activities proposed under the project, would face some administrative limitations, unless the project were to provide it with additional resources. These would appear primarily in project management, coordination procurement and contracting.

Likewise, at the national level, institutions face limitations of both technical and administrative personnel. A lesson learned over and over in "policy" projects is that policy makers do not necessarily need additional advisors or studies, telling them what policies to adopt, although some technical assistance in the analysis of policy options may be required. Rather, qualified technicians and administrators to assist them in administrative capacities and policy implementation is what is needed.

In order for the project to be effectively executed at the regional level, the project design analyses recommended a full time coordinator with secretarial and administrative assistance. The coordinator and his/her team were deemed necessary to provide the project with full time management attention and the core administrative capacity. They would form the basis of a Regional Implementation Unit. Project management and administration would go lacking, at least in the initial stages of the project, were the project to be assigned to current EAS staff, given their current workloads.

To address national level requirements, technical assistance (three full time resident technical advisors) was recommended. This recommendation was tabled for reconsideration in later project stages, until such time as project implementation adequately justified them. It is advisable that the project first define its task oriented requirements, based on demand generated in the region, and then proceed to apply technical and administrative resources to the tasks. Some of these resources may be project funded contractors, and others may come from the current ranks of national and regional institutions, such as the EAS.

In order that the OECS/EAS be certified as capable to implement this project, A.I.D. must have a relatively high level of confidence in the reporting and control mechanisms of the financial and budgetary systems of the Grantee. The OECS/EAS has previously managed A.I.D. projects, and the Mission has in the past experienced some difficulties due to weaknesses in the system of internal control of this organization. However, the Mission recently carried out a capability assessment of the organization and found that the organization had over the last two years made significant strides toward the improvement of its accounting and financial management systems. It also was found, however, that the organization's system of procurement and contracting was very weak, and that extensive guidance and assistance in this area would be required. In addition it was found that funds from a previous project were not being deposited intact into an interest bearing account in accordance with A.I.D. regulations. This requirement has been included as a condition precedent in this agreement. The Controller Office of A.I.D. is currently working with the OECS/EAS to address some other minor weaknesses in the system used for managing A.I.D. funds.

C. Economic Analysis. For the sake of economic analysis of the proposed project activities,

one could begin a new survey of sectoral prospects and problems in an attempt to identify priority areas for policy analysis and implementation support. However, this would be duplicative of other policy needs assessments. A.I.D. has already spent considerable resources to identify areas of policy concern and to give them some priority. The Agricultural Policy Analysis Project report (November 8, 1991), the St. Lucia Policy Project Design Conference (19-20 March, 1992), numerous World Bank reports and the Economic Analysis of the Eastern Caribbean Policy Project by George McCandless (April 16, 1992) all identify areas for policy attention. The issue areas that have been identified seem consistent with macro-economic thinking, and intuitively "reasonable." Furthermore, they represent substantial regional input and consensus on what should be addressed from both an analytical and implementational perspective. Therefore, this analysis will focus on addressing the issues of a) why a policy project as opposed to other project alternatives; b) what are the potential payoffs; and c) how would the important policy issues areas already identified be prioritized for their macro-economic importance.

First, some introductory background on the general economic rationale for doing a policy project as opposed to another type of project.

Studies done for A.I.D., among various other organizations, indicate that policy-based distortions have significant effects on economic growth. These studies show that countries with higher indices of distortion grow more slowly than countries with less distortion. Lower growth of exports and lower capabilities to service debt also are a characteristic of countries with high degrees of policy distortion. Countries that have established effective dialogue between the public and private sectors, as in the case of the Asian "Tigers", also show overall higher rates of economic growth.

If policy distortions effecting a particular activity exist, then the allocations of resources to that activity are immediately questionable from an economic perspective. They are circumspect from the standpoint of sustainability, the cost to society in terms of resource use, and the neglect of other, more economical alternatives. One reason to undertake policy activities is to assist countries to identify the "economical" use of their resources, assist them in the planning and execution of adjustments, and promoting a more favorable economic environment. Investments in other types of projects may be quite well justified, but so long as there are distortions, the economics of investments can be placed in doubt.

The countries in of the Eastern Caribbean find themselves in a challenging set of conditions with respect to policy. Policy distortions of major trading partners are being revised with direct implications for the allocations of resources in the Eastern Caribbean. On the home front, the distortions created by protectionist, import substituting, or statist other measures are rapidly becoming unsustainable. Government investment programs, built upon tariff and non-tariff based revenues, are threatened. Policies which encourage new private-led investment are lacking. Clearly, much investment in the Eastern Caribbean, including donor investment, awaits the outcome of government fiscal, regulatory and trade policy in a rapidly changing world and domestic environment, before it can reasonably project returns, not to mention attractive returns.

What about the returns to policy projects? For illustrative purposes, one can conservatively assume that policy distortions in the Eastern Caribbean result in at least a 2 percent loss in the value added to the economies because of resource misallocations. For example, the high costs of importing conservatively reduces the margins of import dependent industries, such as tourism, by two percentage points. An improved policy framework, which facilitates the importer by reducing both the financial and transactions costs of importing would increase profit margins. This would enable the importer to produce more at the same cost or produce the same amount for less cost.

On the basis of a composite of World Bank and IMF estimates, the value of the combined GNP of OECS countries (Antigua, Dominica, Grenada, St. Kitts, St. Lucia, and St. Vincent) was \$1.241 billion in 1990. Using the conservative loss of value added estimate would imply that losses occur at rate of approximately \$24.8 million per year. Assuming that the project can contribute to the recovery of half of that annually by the end of the project (5 years), the discounted (at 10%) stream of benefits over a ten year period would be \$36.86 million. Again assuming that all project expenditures are made in the first year (in truth they are spread over 5 years), the benefit-cost ratio of the project would be almost 3 to 1. At this rate, there appears to be ample economic justification for pursuing policy improvements in the OECS.

With the above introduction on the "returns" to policy-type projects, the purpose of the following discussion will be to identify from important Eastern Caribbean policy issues a degree of priority and to guide the strategic focus of the project.

Trade Liberalization

The proceedings of the St. Lucia conference identified trade liberalization as an important area of concern. Some of the subtopics identified at the conference, and frequently mentioned during interviews throughout the OECS include:

- Capacity to analyze liberalization effects.
- Concern over the revenue base.
- Concern over infant industries and their protection.
- Potential dislocations and need for complementary adjustments. This should include a concern about infant industries which now receive protection and which would probably lose protection during most trade liberalizations.
- Concern over non-tariff barriers to trade.
- Dealing with international and regional barriers to trade.

Other items mentioned during the conference under the heading "trade liberalization" seem

too general to fit. Transportation policy and infrastructure were mentioned, but those topics lead to essentially different fields. "Identification of comparative advantage" was listed as well, but one must take great care with such a concern. Identified comparative advantages were the main reason for the infant industry protection that has made the Caribbean trading systems inefficient in the first place. The inability of governments to identify comparative advantages is well known. (Helleiner, 1991) The private sector does identify comparative advantages, but it does not do it in the abstract. It does it in day-to-day transactions as it responds to the set of economic incentives that are in place. One main reason for engaging in trade liberalization and relying on the private sector is so that comparative advantage does not have to be identified a priori. Rather, efficient incentives are put in place so that private investors identify and pursue what they see as their own comparative advantage. In any event, identifying very specific areas of comparative advantage would require details on costs structures that are not available.

Private Sector Development

The concerns about private sector development that were specified in the conference proceedings mixes two basic issues. First, there are institutional issues that affect the private sector no matter what policy is. Some points raised at the conference included:

- The private sector needs an expanded role in policy formation.
- It needs better organization, support services, skills, etc.
- There is weak infrastructural support.

Until the private sector is well organized and capable of intervening in the policy making process in a well informed and technically sound manner, it has only a limited role in policy making. This is learned from the experience of the Asian Tigers and the other developing countries that have attempted to copy their model. No matter what the policy issues are, private sector institutions need strengthening to participate. One refers to this as "private sector development."

Second, there are policies in place that adversely affect the private sector, no matter how developed the private sector institutions are. One refers to this issue as "private sector liberalization." The private sector is hindered by:

- Non-transparent development strategies.
- Differential incentives for foreign and domestic entrepreneurs.
- Bureaucratic delay and arbitrary decisions.
- Controls on the movement of capital, labor, etc.

- Inadequately trained public sector.

Tourism

Tourism was identified by McCandless and by the St. Lucia design conference participants as being of overriding importance. The reason for this is that tourism represents the "obvious" comparative advantage of the OECS. OECS tourism has demonstrated its comparative advantage, even in the presence of anti-tourism policies, e.g., import substitution, high food costs, NTBs forcing local purchase of high cost inputs, high land and development costs, etc. An economic overview of the OECS demonstrates that in all OECS countries, tourism is either already the primary source of foreign exchange earnings or tourism's foreign exchange earnings are growing faster than those of any other sector (or both). Furthermore, attention to developing and maintaining effective tourism policy could have some pay-off in the short run.

Education

As McCandless has pointed out, economic history has shown that a well developed basic educational system is closely associated with economic progress. Furthermore, educational systems in the OECS countries have evolved to serve traditional interests of university-bound students in the arts and humanities. An investigation of employment conditions in the OECS pointed out that many people aspire to jobs that they are not qualified for. McCandless and others have recommended that an overhaul of the educational systems in the OECS be aimed at providing the work skills needed by the economic activities that are likely to lead development in the area.

While most would be in agreement that general educational reform is worthy of attention, it probably should not be under the general mandate of the CPP. General educational improvement would have a long pay-off period, would not be directly involved in economic policy making and may have limited private sector involvement. Furthermore, meaningful educational reform as envisioned by McCandless is an enormous task. Resources for it would likely exceed what is destined for the CPP. Educational reform may be the object of other major A.I.D. projects, but it seems misplaced within the CPP. However, within the CPP there are some specialized kinds of education that may be "in demand" as a result of this project. Specialized training also seems to be what is called for to allow people to acquire the skills to qualify for the jobs to which they aspire. However, until there is an identification of specific need it is not clear what skill development is most appropriate. Therefore, all educational content in the CPP should be demand driven.

Agricultural Sector Diversification

This was identified by the St. Lucia design conference as important and has been mentioned by many people in interviews. But one should be clear about what is being discussed when one discusses agricultural diversification. First, there is a question about bananas. What should the four banana exporting countries do as long as the banana subsidies from the U.K. continue? The

answer is clear: they should continue to collect the subsidy. Second, they should prepare for the day when the subsidies disappear. Much of that preparation is already being addressed by other A.I.D. projects and several projects supported by other donors. Given the terms of reference for the CPP, it does not appear that the movement out of bananas is an appropriate focus for the project.

Third, what should happen on the day the subsidies end? As farmers step out of banana production what should they step into? As McCandless has pointed out, diversification per se has little or no economic justification. Farmers may leave farming. Some may enter other specialized farm activities. In any event, farmers should step into a policy environment that encourages them to reallocate their resources in an efficient manner. The third part of the agricultural diversification concern is within the purview of the CPP. In large measure it is related to trade liberalization and private sector liberalization. One is concerned about these latter two issues because they are necessary to make the private sector function better. They are the same concerns that one has about farmers when they are trying to shift from banana production to something else.

A review of the sub-issues raised at the St. Lucia conference indicates a great overlap between concern over private sector liberalization, trade liberalization and agricultural diversification. Some of these include concern over:

- Land use/tenure/distribution
- Roles of trading companies/marketing services
- Non-tariff barriers
- Lack of encouragement of foreign investment

Thus, the kind of policy environment that farmers enter as they leave banana production does seem to be a candidate for inclusion in the CPP. But these may be best dealt with along with general concerns about trade and private sector liberalization, rather than including a component in the CPP on agricultural diversification per se.

Environmental Management

Environmental management is another important topic identified at the St. Lucia design conference. It is also identified as a high priority by all the recent World Bank Country Economic Memoranda on each country. However, as stated, the subject is too broad for designing CPP activities. The environmental concern is like the concern about education. Everyone recognizes its importance, but suggestions for a focus are too few and often controversial. The subject of environmental management is huge, and can occupy any amount of funds made available. Furthermore, any impact from a broadly based environmentally oriented project would come in the long run.

If the subject of the environment is too large to handle, one might ask whether parts of the environmental concern could be handled by a project like the CPP. Environmental factors touch almost all aspects of life and so when confronted with a general concern about the environment one must ask, "what about it?" At the St. Lucia conference, statements made about the environmental concern seemed to be most directly associated with the tourist industry and to a lesser extent to agricultural development. Concerns included:

- balancing economic development and environmental concerns
- land use/coastal zone/watershed/wildlife policies
- insufficient environmental impact considerations
- linkages to productive sectors

As in the case of education, one can let the choice of an environmental component in the project be demand-driven. To the extent that the project deals with tourism, agricultural diversification, or other specific activities, a concern with environmental management should be explicit.

Fiscal Reform

Fiscal reform is an apparent need in several OECS countries. Most in need are Grenada and Antigua which both have serious fiscal problems now. Dominica has a difficult fiscal position, but so far it has been handled well. The remaining countries have managed their fiscal situation well, and St. Lucia has already managed significant fiscal reform. Fiscal reform was not identified at the St. Lucia conference as being of overriding importance. However, all of the recent World Bank memoranda (CEMs) have identified improving and maintaining fiscal balance as being of primary importance. In the order of reform it must usually take precedence over all other reforms (see McKinnon, 1991). Fortunately, Canada's ECEMP-II project is aimed almost exclusively at fiscal reform. ECEMP-II will direct about \$12 million (Canadian) toward fiscal reform in the OECS over the next five years. Obviously, the CPP should coordinate closely with ECEMP-II, but it need not duplicate its efforts.

Capital Market Development

Capital market development has been mentioned as a subcategory in the conference proceedings, in some of our conversations with A.I.D. and by McCandless. Also, some background is provided in the study done for A.I.D. by Nathan Associates (1990). McCandless pointed out that the banking system is not so underdeveloped as to be a major constraint, and that an equities market does not seem justified. The Nathan Associates study indicated several ways in which the financial system could be improved upon, but it did not identify major flaws in the system. Recent IMF memoranda on each country, all of which discuss financial systems, indicate a reasonable pace of financial deepening in the OECS. There do not appear to be major

restrictions on international payments that would overly restrict development of a viable financial system. Finally, in the order of economic liberalization, financial development should come rather late. Of greater importance is to first obtain a reasonable fiscal balance and secondly a liberal trade regime (McKinnon, 1991). Unless concern with the financial system surfaces in a "bottom up" way, it does not appear to be an important candidate for focus within the CPP.

Summary of Policy Issues

A macro-economic tour of the OECS has indicated that growth and economic performance in general have been good. The challenge facing the OECS countries is to sustain the growth that has been experienced. A review of the policies that are important to sustaining growth indicate some priorities for the CPP. Priorities are in the areas of trade liberalization, private sector development and liberalization, and tourism.

Other policies have been identified as important, but seem to be less important as far as the CPP is concerned. Education and environmental management have been identified as important for continued growth in the OECS, but these areas may be too broad for the CPP. However, aspects of these areas are related to the priorities specified above. By pursuing the priorities one can deal with educational and environmental issues as demanded without losing focus.

Other important policy areas are already receiving attention from other projects. Fiscal reform is being dealt with by Canada's ECEMP-II project. Most technical aspects of agricultural diversification are already being dealt with by A.I.D. and other donors. Some aspects of agricultural diversification can be dealt with as required by focussing on the three priorities indicated.

D. Financial Analysis. The Caribbean Policy Project design does not lend itself to the traditional financial analysis. It does not seek to achieve the financial soundness or sustainability of the institutions with which it works. It does not generate, nor intend to generate user fees that would sustain the policy work beyond the life of the project. The project will have its economic and financial impacts over the short to medium term by providing statistical, analytical, consensus building and implementational resources to OECS institutions. Some of these resources will continue to have a useful life beyond the life of the project. The resources are expected to result in the adoption of improved policy measures that will position the OECS countries to accommodate increased levels of private sector led investment and trade.

Due to the difficulty in tracing the anticipated returns to the commercial, service, industrial or small producer beneficiaries of the improved policy environment, the appropriate questions for a financial analysis of the project, therefore, are whether the policy improvements will be achieved at a reasonable cost, and whether there are mechanisms in the project to assure that costs are appropriate to the anticipated returns.

The financial inputs to the project have been detailed in Section V above. The financial cost of these inputs are consistent with current experience. The project proposes to allocate the

resources on the basis of proposals that have economic and financial impact estimates. These proposals will be reviewed by project staff and approved by A.I.D. and EAS. There will be opportunity to consider less costly alternatives by the nature of the proposal process.

E. Social Soundness Analysis. The CPP design hypothesizes that the private sector is the engine of growth, and that the public and private sectors must work closely together to develop rational and effective economic policies in the national and sub-regional interests. Therefore, both private and public sector actors are stakeholders in the process. Stakeholders can be affected directly or indirectly by a policy action. While groups benefitting most will be those directly interacting with the project, the population in general will benefit from the improved policy environment achieved from a more open policy dialogue process. By encouraging participation and input into the process, it is more likely that policy reforms will be implemented, because the stakeholders are more likely to accept ownership of the policy decisions made. It will be the task of the regional implementation unit to ensure that the full range of groups, representative of the private and public sectors, are included.

Constituencies identified represent loose groupings or characteristics of stakeholders in the OECS policy process. For example, the distinction is made between private and public sector, yet many civil servants also farm, making them private sector actors also. In the Eastern Caribbean, distinguishing between urban or rural dwellers is primarily irrelevant (with the exception of Dominica, where the mountainous terrain accentuates the division between urban and rural areas).

In many instances, different groups with common interests have made efforts to coordinate on policy matters. In Grenada, for example, the Hotel Association, the Chamber of Industry and Commerce, and the Employees Federation have formed a coalition to support their interests. Similarly, in St. Kitts and Nevis, efforts have been initiated to coordinate activities of the National Development Foundation, the Small Business Association, and the Credit Union. Such a broad coalition will assist in the policy dialogue process. Coalition building of this type however has not been the norm. Mutual distrust, lack of resources, and lack of leadership are some of the barriers to realizing a more cohesive private sector. The CPP aims to mitigate the divisions between the public and private sectors, as well as within the private sector itself.

Socio-cultural norms play a major role in shaping participation in the policy dialogue process, and the ability of different groups to respond to a new policy environment. While directly addressing socio-cultural constraints is beyond the scope of this project, these areas should be monitored and addressed as they relate to economic growth and productivity.

Skepticism colors interactions in the OECS on three levels. First, at the international and regional levels, OECS individuals readily express their frustration with international banks and aid agencies. It is perceived by many OECS people that international donors attempt to impose a pre-set package of economic reforms.

It is important to recognize that this skepticism exists, and one should not assume that

consensus building and policy dialogue will necessarily occur. On a positive note, many in the public and private sector realize the need to work together, include the other party in the policy process. Many realize that a more cooperative, less suspicious atmosphere is a critical step towards improving policy formulation. The design studies team felt strongly that project resources should support consensus building activities at the national and regional levels. In addition, the proposed project design includes coalition building as a precondition for grant awards.

In every country visited, private sector individuals expressed their frustration with the manner in which policy was made and implemented. The current situation has many losers. Individuals do not understand what factors are considered in policy formulation. In Grenada for example, the Government told the public it would be increasing utility rates; Government did not issue any formal statement of what the new rate was to be or what rationale was used in arriving at a rate. Instead, consumers learned of a policy decision by opening their monthly water bill, and finding that the rate had increased by 35 percent for domestic users. For commercial users the increase was 100 percent. Other cases may not be so severe, but the principle is the same—a society which encourages its citizens to participate in the policy making process will realize more effective and implementable policy.

In the cases where government does solicit private sector input, the request is usually only perfunctory—the decision has already been made and the government felt it politically necessary to be able to say that the private sector was consulted. Many Chambers are requested to provide input on the annual budget, but all Chambers without exception felt their input was not integrated. In addition, when the government counsels the private sector, it is reported that the government hand selects who it wants to hear from, and the views expressed are rarely those in opposition.

At present, private sector individuals who are politically and financially powerful already influence policy. Due to their clout, the most powerful business persons can bypass a technocrat and discuss their position on policy options with the prime minister directly. Most small scale businesses, the micro-entrepreneurs, farmers or minimum wage employees have the same type of access to the decision making process. In some of the territories, efforts have been made to convene a broad based private/public forum to discuss policy (e.g. Antigua, Dominica, and Grenada). However, in most of these cases, the general population is not included.

Current policies have created road blocks to private sector growth. Protectionist trade policies have increased the relative price of tourism in the OECS. Selected (but perhaps the majority) manufacturing enterprises have continued to exist in large part because of protection. While some "infant industries" benefitted, the general economy has suffered because the protection was subsidizing inefficient industries, and raising costs of imported goods to consumers. Support of import-substitution led to capital intensive development. Incentives were established which encouraged importation of heavy machinery for production. This has meant a loss of jobs for low-to semi-skilled worker.

Trade policies also affect farmers. In the Windward Islands, banana subsidies from the U.K. have provided farmers with clear incentives to produce bananas. Marketing boards were first created by the colonial producers (Geest) and then supported by the colonial governments. The marketing infrastructure remains today to encourage the production of bananas. However, this dependence on one crop has created a vulnerable situation. If and when the U.K. subsidy is removed, little remains in agriculture (with the exception of Dominica and Grenada which have diversified agricultural production significantly).

The OECS private sector in general has been harmed by policies which impinge upon its ability to make rational, informed business decisions. An entrepreneur makes plans to start a business, believing that all of the requirements have been met, only to find there are additional "non-transparent" barriers to the business.

Thus, the current situation harms both the public and private sector. Private sector is not performing most efficiently because its relationship with government is adversarial rather than cooperative. Government loses because the revenues generated by the private sector are less due to the disincentives created by policy. In the broadest sense, the general public is harmed because they are not empowered to participate in the policy formulation process and they are not well informed of the policies so as to plan accordingly.

By taking a "bottom-up" approach, the project will lead to a more participatory process for identifying policy issues, analyzing options, and implementing policy decisions. The central implementation unit will work with private and public sector groups and individuals to ensure that the general public is encouraged to take part in shaping and implementing policy. Countries around the world are experiencing "democratization," whereby the general population is expressing their opinions through public fora and general elections. If people are aware of the issues at hand, and the resources available to deal with them, they can participate in the prioritization process and effective policy implementation will be improved.

At a meeting with OECS private sector representatives, frustration was voiced in regards to the public sector's willingness to share information and to include the broader public in the policy dialogue process. A critical element in achieving project success is transparency. Both issues and actions need to be discussed in a public forum, where a broad representation of public and private sector groups are present. In order to access the project, it should be required that project activities and findings are vented before an audience which is representative of the general population. Policy decisions should not be made in back rooms, granting favor to one group over the other, in exchange for political support. People must comprehend what various policy efforts hold for their social and economic well-being. The protocol establishing project resource acquisition must clearly require that this happen.

The general public will benefit from this project through the promotion of a policy environment which is conducive to investment and growth within the OECS. While there are potential social dislocations associated with the proposed policy activity, the benefits to be gained are substantial. The project personnel must be sensitive to the vulnerable groups and work

closely with the private and public sectors to minimize the effects.

F. Gender Analysis. The strain on human resources, caused by an inadequate education system, lack of job opportunities, and a migratory tradition, has led to a high occurrence of single headed households. Not unique to the Caribbean, the high incidence of single headed households is often correlated with increased vulnerability to economic adjustment. Absence of the head of household (usually male), creates economic strains on many households.

Child bearing among unwed teenagers has been a tradition which has created a cultural dilemma for Caribbean women. It is reported that 70 percent of children are born out of a legal union. Coupled with the strong migratory tradition in many of the islands, women are often in the position of caring for their families with little if any support from the father. In Dominica, St. Kitts, and St. Lucia over 40 percent of families are headed by a female who has primary or sole responsibility for child-rearing and household income.

Of concern to employers is the high rate of absenteeism among female employees. While generally highly regarded for their job performance, businessmen in Grenada expressed concern regarding the impact of inadequate child health and day care on labor productivity. Given the Caribbean family structure, it is critical that policies affecting economic growth also consider family welfare. Policies must take into account the constraints of the primary income earner, and must recognize that women, in general, may not be able to adjust as quickly to a changing labor force, due to household and family responsibilities.

VII. SPECIAL PROVISIONS

A. Conditions Precedent to Disbursement.

First Disbursement. Prior to the first disbursement under the Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

(a) An opinion of the Attorney of the Grantee that this Agreement has been duly authorized and/or ratified by, and executed on behalf of the Grantee, and that it constitutes a valid and legally binding obligation of the Grantee in accordance with all of its terms; and

(b) A statement of the name of the person holding or acting in the office of the Grantee specified in Section 8.2., and of any additional representatives, together with a specimen signature of each person specified in such statement; and

(c) Evidence that the Grantee has established a separate, interest-bearing account for Grant funds.

Subsequent Disbursement. After satisfaction of the conditions precedent listed in Section 4.1, disbursements under the Grant shall be available to finance project start-up costs, such as staff salaries, office expenses, and regional travel, and also technical assistance for the purpose of assisting with the completion of the items set forth in Sections 4.2 (b) and (c) below. Disbursements also may be made directly by A.I.D. to finance project specific activities. All such disbursements shall be agreed to by the Parties in countersigned Project Implementation Letters.

Prior to other disbursements of project funds under the Grant, or to issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance acceptable to A.I.D.:

(a) A time-phased implementation plan for the first year of the project which includes the time-frame, relevant details, and assigned responsibility for the following:

- establishment of a project office;
- hiring of a Project Coordinator and support staff for the Regional Implementation Unit;
- development of the terms of reference for an institutional contractor or consortia of institutional contractors to provide goods and services to the project;
- scheduling of initial country visits and development of country work plans;
- establishment and composition of the Project Advisory Committee;

(b) Evidence that a commodities and technical services procurement system, satisfactory to A.I.D. standards of competition, has been established; and

(c) Documentation outlining: i) the requirements of the project proposal process by which participating countries and institutions will access project resources; ii) a standard set of criteria for supporting proposals; and iii) a standardized format and content for the implementational sub-grant agreements, including management and reporting responsibilities. The Grantee shall incorporate sub-grant procedures satisfactory to A.I.D. requirements.

B. Special Covenants

Organizational Setting. The Grantee shall, except as A.I.D. may otherwise agree in writing, establish the Regional Implementation Unit in a convenient location determined by the Grantee, so that the Unit can benefit from existing administrative and policy mandate of the Economic Affairs Secretariat of the Organization of Eastern Caribbean States and its regional and national affiliates.

Project Evaluation. The Parties agree to establish an evaluation program as part of the Project. Except as the Parties otherwise agree in writing, the program will include, during the implementation of the Project and at one or more points thereafter:

- (a) evaluation of progress toward attainment of the objectives of the Project;
- (b) identification and evaluation of problem areas or constraints which may inhibit such attainment;
- (c) assessment of how such information may be used to help overcome such problems; and
- (d) evaluation, to the degree feasible, of the overall development impact of the Project.

Annual Project Implementation Plans. The Grantee shall submit annually to A.I.D. for review and approval, comprehensive, time-phased implementation plans and operational budgets for activities to be carried out under the Project. The implementation plans shall be submitted to A.I.D. by the end of the first month of years 2-6 of the Project. These plans will comprise all the activities to be conducted by the Project during the year ahead, and will consider the optimal utilization of Project and cooperating county resources in implementation of this Project. The Annual Implementation Plans shall include:

- a statement of the regional outputs and outcomes to be targeted for the period;
- project activities grouped by project component;
- responsible parties for cooperating in and executing each activity;
- resources required from project and cooperating agencies;
- time-phased schedule of activities, and
- assumptions.

Project Start-up. The Grantee shall provide such personnel and other resources as are required to start up the project, including developing the terms of reference for and hiring permanent project staff. The Grantee will submit to A.I.D. for review and concurrence the nominations (supported by recent C.V. and other relevant data) of candidates for all Project-funded staff positions following an agreed schedule for filling these positions. Following satisfaction of the conditions precedent to the first disbursement contained in Section 4.1, the Grantee covenants to utilize project financed technical assistance to establish procurement and sub-grant procedures adequate to implement the project and in accordance with A.I.D. standards.

ANNEXES

ACTION MEMORANDUM FOR THE MISSION DIRECTOR

Date: January 3, 1992
From: Gerald Cashion, PDO *GC*
Ronald Stryker, ANR *RS*

Action Requested: That you (a) approve the attached PID for the Eastern Caribbean Policy Project (No. 538-0184); and (b) concur with the negative determination indicated in the Initial Environmental Examination.

Background: The goal of the Eastern Caribbean Policy Project is macroeconomic and sector policies that respond to the challenges of the 1990's and promote private sector-led growth. Its purpose is to strengthen the capacity for policy analysis, decision making, and implementation at the regional and national levels. The five year, \$8.0 million effort will focus on policies influencing investment in important economic sectors such as agriculture and tourism. Among the areas of emphasis will be trade taxation and fiscal policy; land, labor, and capital markets; and privatization.

The project will have four components: (a) a regional policy analysis and support unit that will respond to the policy agenda of OECS governments and private sector institutions, and also serve as a coordinating center for policy analysis and implementational assistance; (b) a sector statistics and database development component to support the abilities of national and regional analysts; (c) a component for the analysis of policy issues and formulation of options; and (d) a component for building broad consensus on policy reforms and support for the implementation of the reforms themselves.

AID inputs will be comprised of operations support, training, technical assistance, and limited commodities.

The grantee tentatively has been identified as the Organization of Eastern Caribbean States (OECS), but further analysis will be devoted to alternative implementing agencies, including the Caribbean Development Bank and the Caribbean Association of Industry and Commerce.

Discussion: The Mission received its delegation of authority to approve the PID via the AID/W Action Plan Review cable, State 102505, dated March 30, 1991. A PID design team conducted intensive work in the region during the months of September and October. Following a drafting process, the Mission held its review on December 17, 1991. The basis of the discussion during that review was the PID issues paper (attached). While a number of issues were resolved with little discussion, several received considerable attention.

On the issue of whether the project focus should be multi-sectoral or limited to agriculture, it was resolved that the project should be multi-sectoral in focus, even treating macroeconomic policy when necessary, due to the inter-relationships between sectors, the common goal of policy efforts in various sectors, and the programming constraints facing the Mission.

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On the issue of the locus of management responsibility, it was resolved that management responsibility will reside with the Agriculture and Natural Resources Office, but significant input will be provided by the Private Sector Office and others.

On the issue of the OECS/EAS as the implementing agency, the proposed organizational scheme and institutional coordination were comprehensively reviewed. Both supportive and dubious comments on OECS capabilities were expressed. The PSO stressed the point that a private sector entity would be a more desirable implementing channel. Regarding the rendering of the organizational scheme, it was concluded that the scheme did not clearly show the functional responsibilities and relationships, although the notion of a coordinated set of institutions that have roles in the policy process was maintained. It was decided that alternative implementational arrangements would be explored during the PP design stage. Specifically, the CDB would be looked at as a possible implementing agency, and institutional coordination mechanisms that include the private sector, particularly CAIC, will be identified. The procurement capabilities of the selected implementing agency, as per new guidance, will be appraised. The revised PID incorporates these points, especially in the design strategy section.

On the issue of sustainability, a question was raised on the desired outcomes of the project: policy reforms in specific areas, or sustained institutional capabilities beyond the PACD. Support was expressed for the notion that the project target specific policy areas, and focus its resources toward the resolution of issues in those areas. "Sustainability" is not therefore the principal objective of the project, although both the improvement and expansion of existing institutional capabilities will be a desired outcome of project activities. Nonetheless, it was resolved that analyses to be undertaken for Project Paper preparation will include an in-depth look at sustainability.

In addition to the discussion of specific issues, several recommendations on organization and presentation of the PID were made. A number of both substantial and editorial improvements were suggested by reviewers. For example, given the importance of the EAI, the North American Free Trade Agreement, other world socioeconomic developments, and AID's draft Caribbean Regional Strategy, it was recommended that the project be presented with greater emphasis on these events and how the project will help the OECS countries cope with them. This revised PID incorporates reviewers' suggestions and observations presented verbally in the review meeting and in writing or mark-up of the draft.

One other important revision must be cited. The Initial Environmental Examination has been redrafted with a negative determination, as opposed to an earlier "categorical exclusion". Since the project could have an influence on decisions impacting upon the environment, the Mission Environmental Officer felt that an IEE was required. It concludes with a negative determination due to the project's inclusion of an environmental focus in its proposed activities.

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After you approve the attached PID, abridged copies will be distributed to OECS public and private sector leaders with an invitation to attend a conference on the project to be held in St. Lucia on March 19th and 20th. The objectives of that conference will be to get feed-back on the document and reach a consensus on and endorsement of the project components and implementational arrangements. Simultaneously, scopes of work for the PP analyses will be finalized, with the intention being that the analyses can be conducted shortly after the conference.

Authority: Under revised Delegation of Authority 752 dated August 2, 1991, you are authorized to approve Project Identification Documents and direct Mission personnel to proceed with Project Paper preparation.

Recommendation: That you (a) indicate your approval of the Eastern Caribbean Policy Project Identification Document by signing the attached Facesheet at Tab 1; (b) concur with the Mission Environmental Officer's negative environmental determination by signing the the Initial Environmental Examination at Tab 2; and (c) further indicate your PID approval and IEE concurrence by signing this Action Memo on the designated line below.

Approved: _____

Disapproved: _____

Date: _____

1/22/92

Clearances:

LTArmstrong, D/DIR X
 AMerkel, ANR/MEO (Draft)
 JSanford, CONT (Draft)
 PLerner, PRM (Draft)
 JGrossman, PSO (Draft)
 DLuten, RLA (Draft)

Drafted: BWilson, ANR 2616b

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Life of Project

From FY 92 to FY 97

Total U.S. Funding: \$12.0 million

Date Prepared: July 28, 1992

Caribbean Policy Project (538-0184)

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>GOAL: To make the Eastern Caribbean more economically competitive in the international marketplace.</p>	<ul style="list-style-type: none"> - Positive rates of per capita GDP Growth; - Positive Rates of Growth in External Trade; - Positive Rates of Growth of Foreign and Domestic Investment 	<ul style="list-style-type: none"> - National Accounts; - Trade Statistics. 	<ul style="list-style-type: none"> - Governments of the Eastern Caribbean States actively pursue equitable and sustainable economic growth policies; - No radically disruptive external or internal events impacting on economic structure or performance; - Disruptions from natural disasters kept within manageable levels. - Short to medium term response to improvements in policy framework for private investment by local and foreign investors.
<p>PURPOSE: The adoption of macroeconomic and sector policies that will lead to increased trade and private sector involvement in commercial activities, and position the states of the Eastern Caribbean to sustain economic growth.</p>	<p>END OF PROJECT INDICATORS:</p> <ul style="list-style-type: none"> - Widely disseminated, trusted, and referenced data on trade and other economic parameters; - Practical analyses of trade, private sector, and other developmental constraints; - Collaborative policy development between the public and private sector partners in the region leading to consensus on major policy issues; - The implementation of important policy measures to facilitate private led investment and trade. 	<ul style="list-style-type: none"> - Regional and national statistical and economic reports; - Published project reports and documents, - Records and media reports of collaborative policy efforts and dialogue, - Published decrees, orders, legislation, and procedures. 	<ul style="list-style-type: none"> - Policy institutions recognize the utility of good data, analysis, implementational assistance. - Public sector leadership recognizes critical role of private sector in investment and economic growth strategies. - Political consensus can be attained to deal with trade, investment and growth policies.
<p>OUTPUTS:</p> <ul style="list-style-type: none"> - Timely, accurate, reliable and widely disseminated publications of National accounts and trade statistics for each OECS country; - Policy and Sector Constraint Analyses, Reports, Assessments; - Participants trained in policy analysis and information management; - Regional and national conferences, seminars, workshops on policy issues; - Consensus building events; - Implementational and financial plans executed for new policy measures. 	<ul style="list-style-type: none"> - Masterplan for statistics and database development for 6 OECS countries; - 18 national and regional surveys; - 24 Policy and Sector Constraint Publications; - 36 trainees in information management; - 100 trainees in policy implementation process; - 10 regional workshops on policy issues; - 120 national workshops, seminars, meetings, and consensus building events; - 40 policy implementation grants to public and private sector organizations. 	<ul style="list-style-type: none"> - Project reports; - Media reports; - Annual Trade and National Accounts reports; - USA.I.D. records of participant training; - Policy implementation plans; - Official decrees, regulations, legislation. - Increased collaboration between private and public sector associations and government policy makers. 	<ul style="list-style-type: none"> - U.S. and local consultant and implementation teams are capable of planning, executing and achieving high quality outputs; - Public and private sector willing and able to cooperate with project activities;

INPUTS:	(U.S. \$ 000)	- USA.I.D. Project Reports	
- Technical Assistance:	3,310		- All conditions precedent to disbursement are met in timely manner;
- Training:	380		- Funds are obligated and available as planned.
- Equipment:	330		
- Regional/national Workshops:	570		
- Policy Implementation Grants	4,000		
- Regional Project Unit	1,794		
- Audits/Evaluations	425		
- Contingency and Inflation	1,201		

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Caribbean Policy Project
538-0184

5C(2) - ASSISTANCE CHECKLIST

Listed below are statutory criteria applicable to the assistance resources themselves, rather than to the eligibility of a country to receive assistance. This section is divided into three parts. Part A includes criteria applicable to both Development Assistance and Economic Support Fund resources. Part B includes criteria applicable only to Development Assistance resources. Part C includes criteria applicable only to Economic Support Funds.

CROSS REFERENCE: IS COUNTRY CHECKLIST UP TO DATE? Yes.

A. CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUNDS

1. Host Country Development Efforts (FAA Sec. 601(a)): Information and conclusions on whether assistance 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 purpose of the project is the adoption of macroeconomic and sector policies that will lead to increased trade and private sector investment, and position the states of the OECS to sustain economic growth. The project directly encourage (a) (b), (d) and (e), and indirectly (c) and (f)

2. U.S. Private Trade and Investment (FAA Sec. 601(b)): Information and conclusions on how assistance 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).

Consistent with the project purpose, assistance with support trade liberalization efforts in the recipient countries. These efforts will enhance U.S. trade and investment opportunities.

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3. Congressional Notification

a. General requirement (FY 1991 Appropriations Act Secs. 523 and 591; FAA Sec. 634A): If money is 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 (unless the notification requirement has been waived because of substantial risk to human health or welfare)?

Yes. CN cleared without objection on August 18, 1992.

b. Notice of new account obligation (FY 1991 Appropriations Act Sec. 514): If funds are being obligated under an appropriation account to which they were not appropriated, has the President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures?

N/A

c. Cash transfers and nonproject sector assistance (FY 1991 Appropriations Act Sec. 575(b)(3)): If funds are to be made available in the form of cash transfer or nonproject sector assistance, has the Congressional notice included a detailed description of how the funds will be used, with a discussion of U.S. interests to be served and a description of any economic policy reforms to be promoted?

N/A

4. Engineering and Financial Plans (FAA Sec. 611(a)): 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?

Yes.

Yes.

5. Legislative Action (FAA Sec. 611(a)(2)): If legislative action is required within recipient country with respect to an obligation in excess of \$500,000, what is the basis for a reasonable expectation that such action

N/A

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will be completed in time to permit orderly accomplishment of the purpose of the assistance?

6. Water Resources (FAA Sec. 611(b); FY 1991 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

7. Cash Transfer and Sector Assistance (FY 1991 Appropriations Act Sec. 575(b)): Will cash transfer or nonproject sector assistance be maintained in a separate account and not commingled with other funds (unless such requirements are waived by Congressional notice for nonproject sector assistance)?

N/A

8. Capital Assistance (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

9. Multiple Country Objectives (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.

See A.2 above.

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10. **U.S. Private Trade (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).

See A.2 above.

11. Local Currencies

a. **Recipient Contributions (FAA Secs. 612(b), 636(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.

No U.S.-owned local currencies will be used. The OECs countries will contribute to the project costs in cash and in kind.

b. **U.S.-Owned Currency (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?

No.

c. **Separate Account (FY 1991 Appropriations Act Sec. 575).** If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies:

N/A

(1) Has A.I.D. (a) required that local currencies be deposited in a separate account established by the recipient government, (b) entered into an agreement with that government providing the amount of local currencies to be generated and the terms and conditions under which the currencies so deposited may be utilized, and (c) established by agreement the responsibilities of A.I.D. and that government to monitor and account for deposits into and disbursements from the separate account?

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(2) Will such local currencies, or an equivalent amount of local currencies, be used only to carry out the purposes of the DA or ESF chapters of the FAA (depending on which chapter is the source of the assistance) or for the administrative requirements of the United States Government?

(3) Has A.I.D. taken all appropriate steps to ensure that the equivalent of local currencies disbursed from the separate account are used for the agreed purposes?

(4) If assistance is terminated to a country, will any unencumbered balances of funds remaining in a separate account be disposed of for purposes agreed to by the recipient government and the United States Government?

12. Trade Restrictions

a. Surplus Commodities (FY 1991 Appropriations Act Sec. 521(a)): If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?

N/A

b. Textiles (Lautenberg Amendment) (FY 1991 Appropriations Act Sec. 521(c)): 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

No.

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textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel?

13. Tropical Forests (FY 1991 Appropriations Act Sec. 533(c)(3)): Will funds be used for any program, project or activity which would (a) result in any significant loss of tropical forests, or (b) involve industrial timber extraction in primary tropical forest areas?

No.

No.

14. PVO Assistance

a. Auditing and registration (FY 1991 Appropriations Act Sec. 537): 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. It is not anticipated that assistance will be provided to a PVO. If provided, applicable requirements will be complied with.

b. Funding sources (FY 1991 Appropriations Act, Title II, under heading "Private and Voluntary Organizations"): 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.

15. Project Agreement Documentation (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).

The applicable notification/ submission requirements will be complied with after signature.

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16. Metric System (Omnibus Trade and Competitiveness Act of 1988 Sec. 5164, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy):

Does the assistance activity use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

Yes.

Bulk purchases are not planned under the project.

17. Women in Development (FY 1991 Appropriations Act, Title II, under heading "Women in Development"): Will assistance be designed so that the percentage of women participants will be demonstrably increased?

Yes.

18. Regional and Multilateral Assistance (FAA Sec. 209): Is assistance more efficiently and effectively provided through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs.

The project will be implemented through the OECS, a regional organization.

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19. **Abortions (FY 1991 Appropriations Act, Title II, under heading "Population, DA," and Sec. 525):** No.

a. Will assistance be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization?

b. Will any funds be used to lobby for abortion?

20. **Cooperatives (FAA Sec. 111):** Will assistance help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life? Not directly.

21. **U.S.-Owned Foreign Currencies**

a. **Use of currencies (FAA Secs. 612(b), 636(h); FY 1991 Appropriations Act Secs. 507, 509):** Describe steps taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services. No U.S.-owned foreign currencies will be used for this project.

b. **Release of currencies (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?

22. **Procurement**

a. **Small business (FAA Sec. 602(a)):** Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed? Yes.

b. **U.S. procurement (FAA Sec. 604(a)):** Will all procurement be from the U.S. except as otherwise determined by the President or determined under delegation from him? Yes.

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c. Marine insurance (FAA Sec. 604(d)): If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company? Yes.

d. Non-U.S. agricultural procurement (FAA Sec. 604(e)): If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.) N/A

e. Construction or engineering services (FAA Sec. 604(g)): Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.) N/A

f. Cargo preference shipping (FAA Sec. 603): Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates? No.

g. Technical assistance (FAA Sec. 621(a)): If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the Yes.

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facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

Yes, if appropriate.

h. U.S. air carriers

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

Yes.

i. Termination for convenience of U.S. Government (FY 1991 Appropriations Act Sec. 504): If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States?

Yes.

j. Consulting services

(FY 1991 Appropriations Act Sec. 524): If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)?

Yes, if applicable.

k. Metric conversion

(Omnibus Trade and Competitiveness Act of 1988, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance program use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest

See A.16 above.

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documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

1. Competitive Selection

Procedures (FAA Sec. 601(e)): Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? Yes.

23. Construction

a. Capital project (FAA Sec. 601(d)): If capital (e.g., construction) project, will U.S. engineering and professional services be used? N/A. The project will not involve construction.

b. Construction contract (FAA Sec. 611(c)): If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? See 23.b above.

c. Large projects, Congressional approval (FAA Sec. 620(k)): If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed \$100 million (except for productive enterprises in Egypt that were described in the Congressional Presentation), or does assistance have the express approval of Congress? N/A

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

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

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26. Narcotics

a. Cash reimbursements (FAA Sec. 483): Will arrangements preclude use of financing to make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated? Yes.

b. Assistance to narcotics traffickers (FAA Sec. 487): Will arrangements take "all reasonable steps" to preclude use of financing to or through individuals or entities which we know or have reason to believe have either: (1) been convicted of a violation of any law or regulation of the United States or a foreign country relating to narcotics (or other controlled substances); or (2) been an illicit trafficker in, or otherwise involved in the illicit trafficking of, any such controlled substance? Yes.

27. Expropriation and Land Reform (FAA Sec. 620(g)): Will assistance preclude use of financing to compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President? Yes.

28. Police and Prisons (FAA Sec. 660): Will assistance preclude use of financing to provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? Yes.

29. CIA Activities (FAA Sec. 662): Will assistance preclude use of financing for CIA activities? Yes.

30. Motor Vehicles (FAA Sec. 636(i)): Will assistance preclude use of financing for purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? Yes.

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31. **Military Personnel (FY 1991 Appropriations Act Sec. 503):** Will assistance preclude use of financing to pay pensions, annuities, retirement pay, or adjusted service compensation for prior or current military personnel? Yes.

32. **Payment of U.N. Assessments (FY 1991 Appropriations Act Sec. 505):** Will assistance preclude use of financing to pay U.N. assessments, arrearages or dues? Yes.

33. **Multilateral Organization Lending (FY 1991 Appropriations Act Sec. 506):** Will assistance preclude use of financing to carry out provisions of FAA section 209(d) (transfer of FAA funds to multilateral organizations for lending)? Yes.

34. **Export of Nuclear Resources (FY 1991 Appropriations Act Sec. 510):** Will assistance preclude use of financing to finance the export of nuclear equipment, fuel, or technology? Yes.

35. **Repression of Population (FY 1991 Appropriations Act Sec. 511):** Will assistance preclude use of financing for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights? Yes.

36. **Publicity or Propoganda (FY 1991 Appropriations Act Sec. 516):** Will assistance be used for publicity or propoganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propoganda purposes not authorized by Congress? No.

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37. **Marine Insurance (FY 1991 Appropriations Act Sec. 563):** Will any A.I.D. contract and solicitation, and subcontract entered into under such contract, include a clause requiring that U.S. marine insurance companies have a fair opportunity to bid for marine insurance when such insurance is necessary or appropriate?

Yes, if applicable.

38. **Exchange for Prohibited Act (FY 1991 Appropriations Act Sec. 569):** Will any assistance be provided to any foreign government (including any instrumentality or agency thereof), foreign person, or United States person in exchange for that foreign government or person undertaking any action which is, if carried out by the United States Government, a United States official or employee, expressly prohibited by a provision of United States law?

No.

B. CRITERIA APPLICABLE TO DEVELOPMENT ASSISTANCE ONLY

1. **Agricultural Exports (Bumpers Amendment) (FY 1991 Appropriations Act Sec. 521(b), 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: (1) 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 (2) in support of research that is intended primarily to benefit U.S. producers?

The project is not specifically intended to support agricultural development activities.

No.

No.

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2. Tied Aid Credits (FY 1991 Appropriations Act, Title II, under heading "Economic Support Fund"): Will DA funds be used for tied aid credits?

No.

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

Not directly assisted by this project

4. Indigenous Needs and Resources (FAA Sec. 281(b)): Describe extent to which the activity 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 civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

The project seeks to encourage economic policy reform through public and private dialogue and consensus-building. Local input and expertise will be relied upon significantly.

5. Economic Development (FAA Sec. 101(a)): Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

Yes.

6. Special Development Emphases (FAA Secs. 102(b), 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) encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries

(a) (d). By improving the policy environment and reducing barriers and impediments to economic activity both the poor and women will benefit

(b) (c) - See B.4 above. The project seeks to encourage policy reform decisions by beneficiary governments, with input from a variety of public and private sources.

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and the improvement of women's status; and
(e) utilize and encourage regional
cooperation by developing countries.

7. Recipient Country Contribution (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)?

This is a regional project exempt from the 25% requirement. Recipient countries and institutions will make cash and in-kind contributions, determined on a activity-by-activity basis.

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

Yes. Policy reform to stimulate economic growth ultimately, if successful, will benefit the poor majority.

9. Abortions (FAA Sec. 104(f); FY 1991 Appropriations Act, Title II, under heading "Population, DA," and Sec. 535):

N/A. Sec. 103 and Sec. 53I funds will be used.

a. 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?

b. 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?

c. Are any of the funds to be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization?

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d. Will funds be made available only to voluntary family planning projects which offer, either directly or through referral to, or information about access to, a broad range of family planning methods and services?

e. In awarding grants for natural family planning, will any applicant be discriminated against because of such applicant's religious or conscientious commitment to offer only natural family planning?

f. 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?

g. Are any of the funds to be made available to any organization if the President certifies that the use of these funds by such organization would violate any of the above provisions related to abortions and involuntary sterilization?

10. **Contract Awards (FAA Sec. 601(e)):** Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

Yes.

11. **Disadvantaged Enterprises (FY 1991 Appropriations Act Sec. 567):** 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)?

No amount has been specified for TA services and for goods, 8(a) firms will be encouraged to compete.

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12. Biological Diversity (FAA Sec. 119(g): 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 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?

N/A

13. Tropical Forests (FAA Sec. 118; FY 1991 Appropriations Act Sec. 533(c)-(e) & (g)):

a. A.I.D. Regulation 16: Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16?

Yes.

b. Conservation: Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest extent feasible: (1) stress the importance of conserving and sustainably managing forest resources; (2) support activities which offer employment and income alternatives to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas; (3) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management; (4) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices; (5) help conserve forests which have not yet been degraded by helping to increase production on lands already cleared or degraded; (6) conserve forested watersheds and rehabilitate those which have been deforested; (7) support training, research, and other actions

N/A

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which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing; (8) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation; (9) 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; (10) seek to increase the awareness of U.S. Government agencies and other donors of the immediate and long-term value of tropical forests; (11) utilize the resources and abilities of all relevant U.S. government agencies; (12) be based upon careful analysis of the alternatives available to achieve the best sustainable use of the land; and (13) take full account of the environmental impacts of the proposed activities on biological diversity?

c. Forest degradation: Will assistance be used for: (1) 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; (2) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas; (3) activities which would result in the conversion of forest lands to the rearing of livestock; (4) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undergraded

No.

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forest lands; (5) the colonization of forest lands; or (6) the construction of dams or other water control structures which flood relatively undergraded 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?

d. Sustainable forestry: If assistance relates to tropical forests, will project assist countries in developing a systematic analysis of the appropriate use of their total tropical forest resources, with the goal of developing a national program for sustainable forestry?

N/A

e. Environmental impact statements: Will funds be made available in accordance with provisions of FAA Section 117(c) and applicable A.I.D. regulations requiring an environmental impact statement for activities significantly affecting the environment?

N/A

14. Energy (FY 1991 Appropriations Act Sec. 533(c)): If assistance relates to energy, will such assistance focus on: (a) end-use energy efficiency, least-cost energy planning, and renewable energy resources, and (b) the key countries where assistance would have the greatest impact on reducing emissions from greenhouse gases?

N/A

15. Sub-Saharan Africa Assistance (FY 1991 Appropriations Act Sec. 562, adding a new FAA chapter 10 (FAA Sec. 496)): 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) to be used to promote sustained economic growth, encourage

N/A

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private sector development, promote individual initiatives, and help to reduce the role of central governments in areas more appropriate for the private sector; (c) to be provided in a manner that takes into account, during the planning process, the local-level perspectives of the rural and urban poor, including women, through close consultation with 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) to be implemented in a manner that requires local people, including women, to be closely consulted and involved, if the assistance has a local focus; (e) being used primarily to promote reform of critical sectoral economic policies, or to support the critical sector priorities of agricultural production and natural resources, health, voluntary family planning services, education, and income generating opportunities; and (f) to be provided in a manner that, if policy reforms are to be effected, contains provisions to protect vulnerable groups and the environment from possible negative consequences of the reforms?

16. Debt-for-Nature Exchange (FAA Sec. 463): If project will finance a debt-for-nature exchange, describe how the exchange will support protection of: (a) the world's oceans and atmosphere, (b) animal and plant species, and (c) parks and reserves; or describe how the exchange will promote: (d) natural resource management, (e) local conservation programs, (f) conservation training programs, (g) public commitment to conservation, (h) land and ecosystem management, and (i) regenerative approaches in farming, forestry, fishing, and watershed management.

N/A

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17. **Deobligation/Reobligation**
(FY 1991 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 region as originally obligated, and have the House and Senate Appropriations Committees been properly notified?

Applicable regulations will be followed if deob/reob authority is used.

18. **Loans**

a. **Repayment capacity** (FAA Sec. 122(b)): Information and conclusion on capacity of the country to repay the loan at a reasonable rate of interest.

N/A

b. **Long-range plans** (FAA Sec. 122(b)): Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities?

N/A

c. **Interest rate** (FAA Sec. 122(b)): If development loan is repayable in dollars, is interest rate at least 2 percent per annum during a grace period which is not to exceed ten years, and at least 3 percent per annum thereafter?

N/A

d. **Exports to United States** (FAA Sec. 620(d)): If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20 percent of the enterprise's annual production during the life of the loan, or has the requirement to enter into such an agreement been waived by the President because of a national security interest?

N/A

19. **Development Objectives** (FAA Secs. 102(a), 111, 113, 281(a)): Extent to which activity will: (1) effectively involve the poor in development, by expanding access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from

See B.4, B.6 and B.8 above.

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cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (2) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (3) support the self-help efforts of developing countries; (4) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (5) utilize and encourage regional cooperation by developing countries?

20. Agriculture, Rural Development and Nutrition, and Agricultural Research (FAA Secs. 103 and 103A):

a. Rural poor and small farmers: If assistance is being made available for agriculture, rural development or nutrition, describe extent to which activity is specifically designed to increase productivity and income of rural poor; or if assistance is being made available for agricultural research, has account been taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made.

By improving the policy environment, the opportunity for increased productivity and income also will improve.

b. Nutrition: Describe extent to which assistance is used in coordination with efforts carried out under FAA Section 104 (Population and Health) to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value; improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration programs explicitly addressing the problem of malnutrition of poor and vulnerable people.

N/A

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c. Food security: Describe extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.

Not directly. Generally economic growth and increased foreign exchange earnings will improve food security.

21. Population and Health (FAA Secs. 104(b) and (c)): If assistance is being made available for population or health activities, describe extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems, and other modes of community outreach.

N/A

22. Education and Human Resources Development (FAA Sec. 105): If assistance is being made available for education, public administration, or human resource development, describe (a) extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, and strengthens management capability of institutions enabling the poor to participate in development; and (b) extent to which assistance provides advanced education and training of people of developing countries in such disciplines as are required for planning and implementation of public and private development activities.

N/A

23. Energy, Private Voluntary Organisations, and Selected Development Activities (FAA Sec. 106): If assistance is being made available for energy, private voluntary organizations, and selected development problems, describe extent to which activity is:

N/A

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a. concerned with data collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and facilitative of research on and development and use of small-scale, decentralized, renewable energy sources for rural areas, emphasizing development of energy resources which are environmentally acceptable and require minimum capital investment;

b. concerned with technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations;

c. research into, and evaluation of, economic development processes and techniques;

d. reconstruction after natural or manmade disaster and programs of disaster preparedness;

e. for special development problems, and to enable proper utilization of infrastructure and related projects funded with earlier U.S. assistance;

f. for urban development, especially small, labor-intensive enterprises, marketing systems for small producers, and financial or other institutions to help urban poor participate in economic and social development.

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C. CRITERIA APPLICABLE TO ECONOMIC SUPPORT FUNDS ONLY

1. **Economic and Political Stability (FAA Sec. 531(a)):** Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA? Yes.

2. **Military Purposes (FAA Sec. 531(e)):** Will this assistance be used for military or paramilitary purposes? No.

3. **Commodity Grants/Separate Accounts (FAA Sec. 609):** If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? (For FY 1991, this provision is superseded by the separate account requirements of FY 1991 Appropriations Act Sec. 575(a), see Sec. 575(a)(5).) N/A

4. **Generation and Use of Local Currencies (FAA Sec. 531(d)):** Will ESP funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106? (For FY 1991, this provision is superseded by the separate account requirements of FY 1991 Appropriations Act Sec. 575(a), see Sec. 575(a)(5).) N/A

5. **Cash Transfer Requirements (FY 1991 Appropriations Act, Title II, under heading "Economic Support Fund," and Sec. 575(b)).** If assistance is in the form of a cash transfer:

a. **Separate account:** Are all such cash payments to be maintained by the country in a separate account and not to be commingled with any other funds? N/A

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b. Local currencies: Will all local currencies that may be generated with funds provided as a cash transfer to such a country also be deposited in a special account, and has A.I.D. entered into an agreement with that government setting forth the amount of the local currencies to be generated, the terms and conditions under which they are to be used, and the responsibilities of A.I.D. and that government to monitor and account for deposits and disbursements?

N/A

c. U.S. Government use of local currencies: Will all such local currencies also be used in accordance with FAA Section 609, which requires such local currencies to be made available to the U.S. government as the U.S. determines necessary for the requirements of the U.S. Government, and which requires the remainder to be used for programs agreed to by the U.S. Government to carry out the purposes for which new funds authorized by the FAA would themselves be available?

N/A

d. Congressional notice: Has Congress received prior notification providing in detail how the funds will be used, including the U.S. interests that will be served by the assistance, and, as appropriate, the economic policy reforms that will be promoted by the cash transfer assistance?

N/A

DRAFTER:GC/LP:EHonnold:5/17/91:2169J

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INITIAL ENVIRONMENTAL EVALUATION

PROJECT LOCATION: RDO/C
PROJECT TITLE: Eastern Caribbean Policy Project
PROJECT NUMBER: 538-0184
LIFE OF PROJECT: Five Years
LOP FUNDING: \$8.0 Million
IEE PREPARED BY: Albert L. Merkel
Mission Environmental Officer

RECOMMENDED THRESHOLD
DECISION:

Negative Determination

MISSION DIRECTOR'S CONCURRENCE:


Mosina Jordan
Director

1/27/92
Date

CLEARANCE:


GNilken, REA
JGrossman, PSO (Draft)
RStyker, ANR (Draft)
GCashion, PDO (Draft)
DLuten, RLA (Draft)
LArmstrong, D/DIR (Draft)

Revised: AMerkel, 12/30/91 (2618b)

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Initial Environmental Examination
Environmental Review
RDO/C Eastern Caribbean Policy Project
Project Number - 538-0184

I. PROJECT DESCRIPTION

The project's goal is macroeconomic and sector policies that respond to the challenges of the 1990's and promote private sector-led growth.

The project purpose is to strengthen the capacity for policy analysis, decision-making, and implementation at the regional and national levels.

A. FOCUS

The project's focus will be on policies that have a bearing on private-sector led investment and growth. Among the specific areas of emphasis will be: trade; taxation and fiscal policy; land, labor and financial markets; and privatization. These will be considered in the context of their impacts on important economic sectors such as agriculture and tourism. Because macroeconomic, environmental, and natural resource issues are inextricably linked to these areas, the project will focus on these as well.

The project will address limitations in policy analysis, formulation and implementation in the OECS countries. Appropriate policy will depend on reliable analysis and thorough study of the potential impacts of policy alternatives, but also on the ability to implement it. "Implementation" refers to the abilities of OECS countries to organize and manage their institutions, and once a policy decision has been made, to ensure that the decision will have its desired impact. There are areas where the implementation of policies requires specific expertise or advice that is not resident in the bureaucracies or private sectors of these countries. In addition to supporting the economic, financial and social analysis of particular policy options, the project will support feasibility and operational analyses, and make specialized assistance available where necessary.

B. PROJECT COMPONENTS

(1) Institutional Strengthening

A Regional Policy Analysis and Support Unit will serve as a regional center for policy analysis and implementational assistance; information dissemination; and consensus building.

Because discrete national-level policy analysis units do not exist in all countries, the island states will be serviced more efficiently from the regional unit, and benefit from sharing and coordinating policy analysis and implementation responses. Developing policy analysis and implementational

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capability in client country public and private sector institutions (i.e. Ministries of Agriculture, Finance, Trade, Tourism, chambers of commerce, farmers organizations, professional and trade organizations, etc.) and addressing national policy issues will receive priority attention. The regional unit will be capable of synchronizing support from various regional institutions, including donor institutions, for the policy analysis and implementation process.

A Project Implementation Team, whose make-up will be determined following further analysis and consultation with the OECS and its members, will comprise national and regional representatives. It will meet immediately upon project initiation to develop an overall implementation plan and the first annual work plan. The annual work plans will prioritize issues needing attention, establish analytical requirements, determine requisite levels of effort, identify participating institutions, and elaborate formal, non-formal, leadership, and public education objectives. The work plan will be sufficiently flexible to respond to unforeseen needs. The project work plan will be implemented through collaborative working arrangements that will draw upon and enhance existing capabilities. For example, inter-institutional working groups will be formed and staffed with host country and regional counterparts from the public and private sectors participating, along with such project-financed technical expertise as is deemed necessary. This will maximize the quality of the outputs from project activities as well as provide important policy analysis and implementation experience to technical and professional staff. It will also permit targeting expertise to specific policy constraints.

A Project Advisory Board will approve proposed work plans, help identify policy issues, provide guidance to the implementation team, and monitor implementation progress. This is a function that members of the existing OECS Economic Affairs Committee or the Standing Committee of Ministers of Agriculture could fulfill. However, representatives from the private sector and other public sector interests should also constitute membership on the Advisory Board, whose exact make-up will be determined during the preparation of the Project Paper.

(11) Sector Statistics and Database Development

This activity will be the underpinnings for policy analysis. The importance attached to availability of good information for sound decision-making dictates that this activity become high profile and thus be separately identified.

The quality and quantity of the macroeconomic and/or sectoral data bases will be improved by the design of surveys that are uniform--to the extent practical--in focus, content, inquiry, and methodology. Thus, the project will provide technical assistance and financial support to improve the data

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base on which policy analysis must rely. Routine and special surveys will provide production, marketing, processing, consumption, social impact, and trade data using sound design, methods, and statistical techniques that are cost effective and highly specific. The Regional Unit will help identify information needs, design surveys, engage surveyors to do the work, dispense funding, monitor the execution, and assure that the results are usefully exploited and serve policy development.

(iii) Policy Analysis and Formulation

Analyses that result from project-financed research will provide direction for consensus building and policy implementation. Research topics may broadly include, for example, comparative study of similar policies or regulations on various islands, or a narrow focus on specific issues such as import licensing regulations on a single island. The policy analysis agenda will be elaborated by the Regional Unit with input from representatives from supporting units and review by the Project Advisory Board. Analyses may be executed by the regional unit and other regional institutions such as CARDI or by personnel of national ministries. Contracts may also be awarded to private firms or capable non-governmental organizations such as the Caribbean Conservation Association. Highly-focused, short-term research may also be undertaken by a consultant or team engaged by the technical assistance contractor. All research funding will be approved by the Regional Unit. Coordination of the planning, oversight of the execution, analysis of findings, and dissemination of the results will also be major responsibilities of the Regional Unit.

(iv) Policy Consensus and Implementation

To enhance public awareness and to inform national and regional leaders, the Regional Unit will organize and sponsor seminars, workshops, conferences, or other useful means to demonstrate the importance of sound policy, present options, describe the estimated impact of various options, and muster support for change. The project can also organize and sponsor television or radio discussions of issues, options, and consequences. These activities will be incorporated into the work plan to permit the broadest possible dissemination of the policy issues, methods, findings, and recommendations and encourage broad public participation. The Regional Unit will also provide short term managerial and organizational assistance for policy implementation. For example, a policy decision regarding the privatization of a government enterprise may require strategic divestiture plans, assistance in the valuation of assets, study of employee stock distribution options, or other policy-specific implementational assistance. Where the requisite expertise is not resident in the host country bureaucracy, the project could be called upon to furnish limited assistance.

C. AID AND COUNTERPART INPUTS

The AID grant of \$8.0 million and counterpart funding of approximately \$800,000 will support: the operations of the Regional Policy Analysis and Support Unit; inputs of technical assistance and policy-related training; and limited commodities (office equipment, furniture, one vehicle, etc.).

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II. ENVIRONMENTAL REVIEW

The Eastern Caribbean Policy project will provide funding to OECs institutions and governments to improve their capabilities for policy analysis by focussing on the economic sectors with the most growth potential. The Project will also address environmental issues that arise in formulating policy recommendations for these sectors. Environmental considerations have long been neglected by the policy and development planning institutions of the region. The project will seek to elevate environmental analysis to a level of importance in the planning process normally reserved for economic and financial analyses. An achievement anticipated from the project is the elaboration of policy alternatives in actionable terms consistent with sound environmental practices and natural resource use.

The project will not provide funding for:

1. Activities such as construction which would have direct impacts on the environment;
2. Activities that indirectly impact on the environment such as land redistribution, insecticide or pesticide procurement or importation, etc.

The project will:

1. Require that the environmental consequences of developing or implementing policies be assessed and considered as an integral part of the activities funded by this project;
2. Require any action considered for funding during the project life that may have significant impacts on the environment be evaluated as required by Handbook 3, Appendix 2D.

It is the determination of this IEE that no significant environmental impacts as defined in Handbook 3, Appendix 2D, 22 CFR, Part 216.1(C)(II) will result from this project. A significant finding of this IEE is that because of the requirement to include environmental considerations in policy planning and implementation activities, the project will have an overall positive environmental effect.

III. RECOMMENDED ENVIRONMENTAL THRESHOLD DECISION

The project will not have significant impacts on the environment. A negative determination is recommended as allowed in Handbook 3, Appendix 2D, 22 CFR, Part 216.3(a).

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gp

ACTION MEMORANDUM FOR THE MISSION DIRECTOR

FROM: Winston M. McPhie, Gray Amendment Advocate 

SUBJECT: Certification of Consideration of Gray Amendment Organizational Involvement in the Proposed Caribbean Policy Project (538-0184)

ISSUE: Certification that Gray Amendment considerations have been addressed in the development of the Caribbean Policy Project Paper.

DISCUSSION: It is U.S. Government policy that a reasonable share of Federal Government-financed contracts and grants, awarded under the auspices of the foreign assistance program, be awarded to: a) business concerns owned and controlled by socially and economically disadvantaged individuals; b) historically black colleges and universities; c) colleges and universities with at least 40 percent of their student body of hispanic-american decent; and d) P.V.O.s controlled by socially and economically disadvantaged individuals (Section 567 of the 1991 Appropriations Act, otherwise known as the Gray Amendment).

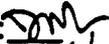
In the PP for the Caribbean Policy Project, Section V. D. Procurement Plan, specific mention is made of the appropriateness of the project for participation by Gray Amendment institutions. AID direct procurements under the project, among which are anticipated a multimillion dollar technical services contract, will provide the opportunity to Gray Amendment institutions to obtain contracts or sub-contracts. In addition, the grantee, the Organization for Eastern Caribbean States, will be given guidance on how to identify and access the services of these institutions as the project works to develop its procurement capacity.

RECOMMENDATION: That you certify, by signing on the line provided below, that RDO/C has considered appropriate involvement of Gray Amendment concerns in the design of the Caribbean Policy Project.

Certified 

Date 9/21/92

Clearance:

DLuten, RLA: 
BBurnett, D/DIR: 

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ORGANISATION OF EASTERN CARIBBEAN STATES

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Central Secretariat,
P.O. Box 179,
The Morne,
Castries,

Saint Lucia, West Indies

Our Ref:

Your Ref:

September 21, 1992

Ms Mosina H Jordon
Director
Regional Development Office for the Caribbean
United States Agency for International Development
Bridgetown
Barbados

Dear Ms Jordon

I write further to your letter dated July 8, 1992 to the Heads of State of the member countries of the Organisation of Eastern Caribbean States, and subsequent discussions held between you and members of your staff and regional leaders on the subject of the Caribbean Policy Project.

As a result of those discussions, there is broad agreement, in principle, to pursue implementation of such a project, although the administrative and technical details of implementation have yet to be fully defined and mutually established. The Secretariat is pleased, therefore, on behalf of the member states of the Organisation of Eastern Caribbean States to now request assistance from USAID in support of the Caribbean Policy Project. This project is intended to assist the member-states of the OECS in adopting macroeconomic and sector policies that will lead to increased trade and private sector investment, and position the states of the Eastern Caribbean to sustain economic growth.

To this end, I hereby request grant assistance of US\$12,000,000 to finance project activities over an initial phase of five years. The assistance will be used to support activities in data base development, policy analysis, consensus building and implementation. Project resources will be made available to national and regional institutions on the basis of proposals, reviewed and approved for consistency with project objectives by an implementation unit attached to the Economic Affairs Secretariat of the OECS. The unit's operations will be guided by a Project Advisory Committee made up of respected public and private sector representatives.

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