PROJECT ASSISTANCE COMPLETION REPORT (PACR)

Project Title:	Caribbean Financial Services Corporation
Project number:	538-0084
Funding Period:	July 29, 1983 - August 31, 1990
LOP Funding:	Loan $14,835,000; Grant $200,000
Implementing Agency:	Caribbean Financial Services Corporation
PACD:	August 31, 1990

I. PURPOSE

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

II. BACKGROUND

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

The key element in the project design was the establishment of the Caribbean Financial Services Corporation (CFSC). The entity would be capitalized from private sources at US$2 million initially and would operate through enabling legislation as an offshore financial institution. The project paper envisioned financial activities of three kirds:

a) discount of commercial bank loans as a means of relieving liquidity problems for those institutions and encouraging them to cooperate with the CFSC. The discount plan also had the objective of quickly generating a base of earning assets to cover the costs of developing higher-risk project specific loans.

b) funds to support development of other financial services such as leasing, factoring and equity financing commencing in the third year of the project.

c) direct lending to productive projects in the mnanufacturing, agro-industrial and tourism sectors as well as service companies benefitting those sectors.

The design also called for the establishment of an interest-bearing escrow account, termed a Risk Minimization Fund, to protect USAID against possible devaluations and loan losses.

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

The project was initially planned at $6,000,000, but was increased to $8,000,000 during the design process. It was later augumented to $17,355,000 in two steps, then reduced to the figure of $14,855,000 when congressional cutbacks required reallocations and the lack of demand for discount lending was recognized. A companion $400,000 grant was to be used for start-up expenses, evaluations and technical assistance, but this was reduced to $200,000 since the directors of the company employed cost saving measures for the recruitment of management and adopted a measured approached to the debvelopment of new financial services.

III. SUMMARY OF INPUTS AND ACCOMPLISHMENTS

The planned discount loan program with the commercial banks failed because of the reluctance on the part of the banks to assume the foreign exchange risk. However at the PACD, CFSC's loan and investment portfolio showed seventy-six (76) cumulative approvals valued at $22.7 million with the outstanding portfolio being $16,120,000. Some $14,775,000 of the USAID obligated amount of $14,835,000 was drawndown for 50 loans primarily to agro-industry, manufacturing, and tourism. Share holders equity at that time was $3,012,000.

In the area of services the CFSC directors took a very measured appproach, preferring to avoid the expense, risk and time involved in developing other financial services at an early stage in the life of the company. The company, however, did participate in the organization and launching of the Barbados Stock Exchange and has a seat on the exchange as well as provides brokerage services for clients.

IV. DEVELOPMENT IMPACT

CFSC has been sucessfully established as a responsive long term lender to privately owned manufacturing, service and tourism ventures. Its management demonstrates a willingness to base loan decisions on anticipated cash flow rather than restrictive collateral requirements and to take security positions secondary to those of shorter term lenders. A 1987 survey of the CFSC portfoilo found that a significant portion of its loans were to small and medium sized firms with an average employment level of 58 employees. The evaluators who conducted the survey also found that about one third of the loans were made to start-up operations and opined that about half of the projects financed would not have received support if CFSC assistance was not available. In addition they state that CFSC lending had a multiplier effect of 1.3 times for total investment and over 2 for new ventures.

The CFSC report for the period ending September 1990 indicated cumulative long term jobs resulting from CFSC investments as 834 and estimated foreign exchange earnings at $32.55 million. The 1987 evaluation, in commenting on the CFSC statistics highlighted the fact that the CFSC foreign exchange estimates were gross rather than net and observed that the job impact figures did not consider the effects of replacement equipment or construction activity. The evaluators suggested that job years would have been a better measure of employment impact. They nevertheless concluded that the CFSC project was successful in terms of total investment, employment, net foreign exchange earnings and prospects for susbtainability.

V. RECOMMENDATIONS FOR CONTINUING MONITORING

None.

V1. LESSONS LEARNED

i) A project which responds to a specific market need will be successful in meeting its objectives.

ii) The involvement of the private sector personnel in project design is very likely to result in their commitment to achieving outputs.

iii) Unnecessary exposure of development projects to foreign exchange risk should be avoided as this can result in the failure of the project.

PREPARED BY: TDO:PRMedford/SPS

DATE: July 14, 1993

Clearances:

C/TDO:DSmith (draft)
PDO:MTaylor (draft)
CONT:MHorween (draft) 7/16/93
D/DIR:BBurnett (draft) 7/19/93