

REVISED

**PROGRAM OBJECTIVES
DOCUMENT/ACTION PLAN**

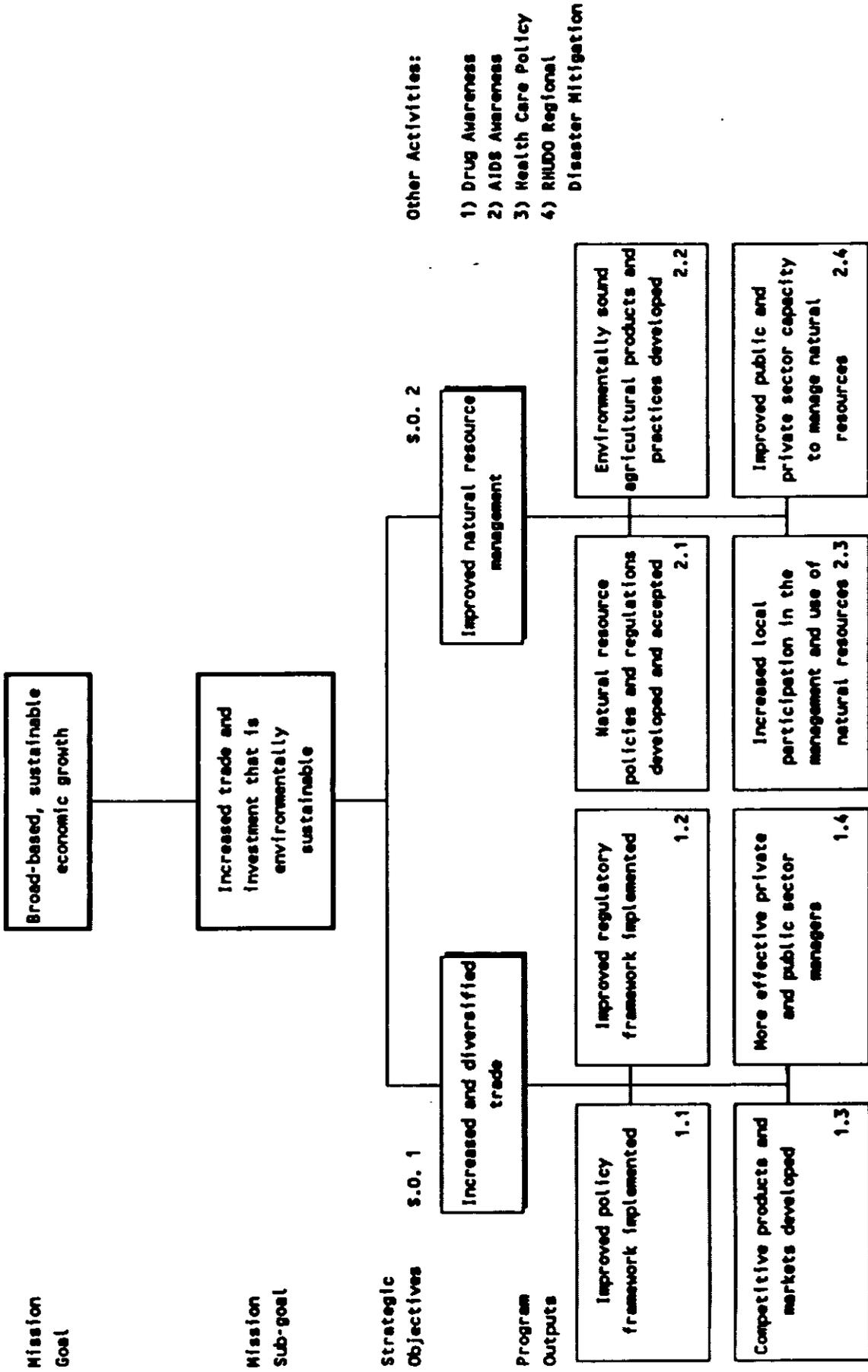
FY 93 - 94

**UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
REGIONAL DEVELOPMENT OFFICE/CARIBBEAN**

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REGIONAL DEVELOPMENT OFFICE/CARIBBEAN

REVISED PROGRAM OBJECTIVES DOCUMENT

I. OVERVIEW

The economies of 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 -- are small, highly protected, import-dependent and undiversified (with single crop agriculture and tourism as the primary foreign exchange earners). ^{1/} The key agricultural export, bananas, benefits from protected markets in the EC; and economic activity has been diverted toward this protected market for many years now, inhibiting the abilities of these economies to respond efficiently to world markets. Current negotiations under the Uruguay Round of the GATT are threatening this protected market and both the governments and the private sector of the region are relatively unprepared to make the changes necessary to enter into globally competitive markets.

U.S. policy in the Western Hemisphere is guided by the Enterprise for the Americas Initiative (EAI) which envisions eventual hemispheric free trade. While earlier policy stressed opening one-way market access for Caribbean Basin countries, the EAI looks for reciprocally reinforcing relationships which call for increased market access on all sides, leading to competitive production and removal of protection. The OECS states joined the Caribbean Common Market (CARICOM) in signing a Trade and Investment Framework Agreement with the U.S. to discuss trade and investment issues. This is expected to lead to meetings of a Joint U.S.-CARICOM Trade and Investment Council (TIC) and, eventually, hemispheric free trade.

Under the EAI, the Inter-American Development Bank (IDB) was charged with (1) providing Investment Sector Loans to countries which are making significant positive steps in reforming their trade and investment climate, and (2) providing access to grant funds under the Multilateral Investment Fund (MIF), an approximately \$1.5 billion fund which will help countries implement changes needed to improve their trade and investment environment. Since the OECS countries are not members of the IDB, an agreement recently signed by the IDB, the Caribbean Development Bank (CDB) and A.I.D. provides funding for a diagnostic study of the investment sectors of OECS countries as a precursor to accessing these EAI funds.

^{1/} RDO/C assistance throughout the period covered by this strategy will be focused primarily on the OECS states other than the British dependencies of Montserrat and the British Virgin Islands, although they will benefit indirectly from assistance to regional institutions.

The RDO/C strategy seeks to increase OECS trade and investment that is environmentally sustainable by supporting the sub-region's transition to a more competitive world trade environment. Based on collaborative work with the IDB, the CDB and other donors, as related to integration in the EAI, the Mission's program will assist regional governments and institutions prepare for the inevitable shift toward global competitiveness by improving trade policies and supporting expansion of the competitive production base which depends in large part on improved management of the natural resource base of the islands. The two strategic objectives of the Mission's program, in order of priority, are:

- o to increase and diversify trade, and,
- o to improve the management of natural resources.

The Mission's programs will directly support the analysis and implementation of policy options related to liberalized trade, developing competitive investment climates, developing mechanisms to increase private sector access to capital, diversifying the productive base, increasing fiscal rigor and improving the efficiency of management of local resources. The Mission will support the implementation of recommendations of the upcoming diagnostic studies financed by the IDB, CDB and A.I.D., as well as provide support for technical assistance and training identified in the Trade and Investment Council. In addition, the Mission will enhance the capacity of the public and private sectors to support the implementation of the improved policies and development of better links between OECS production and world markets.

The Mission's programs will have a special emphasis on productivity and competitiveness in the agriculture and tourism sectors, the two largest sectors contributing to GDP in the OECS countries, both of which are heavily dependent on the health of the natural environment for their sustainable development. In addition, attention will be given to the informatics service sub-sector where recent analyses and actual investments indicate a Caribbean comparative advantage. As these countries seek to create a business environment where investors will seek to put resources into areas of comparative and competitive advantage, there will need to be a focus on making the OECS countries aware of global competition in the tourism industry so that they are able to compete in the future and to redirect agricultural activities away from areas requiring subsidy toward areas which can be competitive and environmentally sustainable.

At present, there exist significant bureaucratic obstacles to competitive business development in the region. Most governments receive the bulk of their incomes from tariffs, providing significant protection for inefficient production. The red tape for new business starts and for engaging in international commerce is excessive. Foreign investors report that the OECS has a non-competitive image in many areas, resulting in part from policies restricting the availability of credit to the private sector.

The island states, while united under one monetary policy organization which has engaged in prudent management of monetary policy, stand to improve their collaboration and harmonization in treatment of the private sector. While there have been some successes in collaboration, such as regional procurement of medicines, there remain many other areas where collaboration could prove beneficial. The Mission will support activities related to such regional collaboration and harmonization of laws, policies, regulations and implementing mechanisms, as appropriate.

The OECS countries have some strong advantages which the Mission will help to reinforce. The legal system throughout the region is well established and recognized as fair and honest. The level of public education is high, creating a workforce capable of engaging in a variety of agricultural, manufacturing and service activities. Health indicators are favorable and there is a good system of providing social services. Education and health care, however, consume a significant portion of the government budget and services have been declining in recent years. The Mission will help OECS governments examine health finance and develop more efficient approaches to providing these basic human services. An education sector assessment will be conducted to examine, inter alia, appropriate interventions in finance in that sector. Such improvements in public finance will help to reduce public sector expenditures, thereby facilitating a reduction in the region's heavy reliance on trade-based taxes.

II. STRATEGIC OBJECTIVES

In helping to support the region's transition to a more competitive world trade environment and in the expectation of supporting the implementation of recommendations of the upcoming diagnostic study of the investment sector in the OECS and of the Trade Investment Councils. The Mission has two strategic objectives: increased and diversified trade and improved natural resource management.

A. Strategic Objective I: Increased and Diversified Trade

Overview and Selection Rationale: The small economies of the OECS will be increasingly challenged as preferential trading arrangements disappear and one-way benefits of market access under the CBI deteriorate when U.S. markets are opened to other suppliers. The dependence on single market, single crop export agriculture and tourism to earn foreign exchange has left the region highly vulnerable to external events such as the possible elimination of guaranteed markets for bananas in agriculture and the competition from Mexico in tourism and other sectors.

The Mission's key objective for the period of this strategy will be to help the region expand its productive base and increase its integration in global markets. By working with governments and private sector

advocacy groups to develop and implement policies, laws, regulations and mechanisms which are more conducive to a positive business environment, there will be a more positive climate for business development. By helping governments restructure their fiscal systems, reducing tariff income and, at the same time, removing protection on inefficient local production, the productive base will shift toward competitive products which can compete in global markets.

Relationship to LAC Strategic Objectives: RDO/C's strategic objective of increased and diversified trade supports several LAC Bureau sub-objectives under the "achievement of broadly-based, sustainable economic growth" objective and specifically addresses:

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

Implementation Strategy: In accomplishing this strategic objective, the Mission's program will target resources to achieving the following requisite outputs:

- o improved policy framework implemented;
- o improved regulatory framework implemented;
- o competitive products and markets developed; and
- o more effective public and private sector managers.

Output No. 1: Improved policy framework implemented. The Mission will work with OECS countries, regional organizations and other donors to identify and address policy constraints to a broader, diversified trading regime. This will include reducing or eliminating tariffs; eliminating non-tariff barriers (e.g. quantitative restrictions/quotas, licenses, and government trade monopolies); divesting or liquidating state enterprises; and reforming a policy environment that restricts financial market operations. Through the Caribbean Policy Project and the Policy Reform Program Support Project, the Mission will provide technical assistance, training and financial support to implement changes identified in the diagnostic studies, TIC meetings and other relevant fora. At the same time, the Mission will work with the business community to develop a constituency for these policy changes through the Private Sector Support Project. In addition, through the West Indies Tropical Product Support Project, the Mission will support relevant policy changes to liberalize the agricultural sector and develop competitive agricultural products which can replace products that have relied on guaranteed markets.

Output No. 2: Improved regulatory framework implemented. In collaboration with the OECS countries, regional organizations and other donors, the Mission will seek to correct regulatory constraints inhibiting trade development and expansion. The Caribbean Policy Project

and the Private Sector Support Project will, inter alia, support reducing the number of steps and time in acquiring the right to import or export. The Caribbean Law Institute project will provide the mechanism for developing a "model" small business act to facilitate the establishment and operation of small enterprises, revising the Companies Act to eliminate or revise a number of requirements and procedures undermining business efficiency and competitiveness and establishing clear and equitable bankruptcy laws. The Caribbean Justice Improvement project, which is scheduled to end in FY 1993, will complete the work already begun to improve court registries to ease caseload management and enhance land title record keeping to facilitate the registration of companies and the provision of related corporate services.

Output No. 3: Competitive products and markets developed. As a complement to the first and second outputs, the Mission will seek to identify products and services in which the countries have a competitive or comparative advantage. Traditional products of the Eastern Caribbean, most notably bananas and sugar, are sold under some form of preferential trade arrangement. As shifts to trade liberalization occur globally, the Eastern Caribbean countries will begin to lose their market shares to more competitive producers. Market research and promotion are required to identify new, competitive, export-oriented goods and services, such as information processing and tourism. Specific projects supporting this program output include: the Caribbean Policy, West Indies Tropical Produce, and Private Sector Support.

Output No. 4: More effective public and private sector managers. In furthering the attainment of this objective, RDO/C has concluded that training and technical assistance are needed to help change attitudes toward business and perceptions of the business climate, enabling government, business and labor leaders to gain a fuller appreciation of their respective roles in economies operating with an "open markets" orientation. This output seeks to improve the institutional ability to operate in a free trade regime by preparing the managers - both public sector and private sector - required to implement liberalized policies and produce competitive products. The following activities would support this program output: Regional Management Training, Private Sector Support, Caribbean Law Institute, Caribbean Leadership Development Training, and Caribbean Policy.

B. Strategic Objective II: Improved Natural Resources Management

Overview and Selection Rationale: Tourism and agricultural production, the major contributors to GDP in the region, are both highly dependent on environmental health. Without clean beaches and attractive landscapes, the Eastern Caribbean will have no comparative advantage in tourism. Without environmentally sound and sustainable agricultural practices, increased and diversified trade in agricultural commodities cannot be realized.

Notwithstanding the importance of the environment to the trading future of the Eastern Caribbean, environmental degradation at present threatens the productivity and attractiveness of the natural resource base, bringing into question the sustainability of tourism and agriculture as

competitive economic activities. The causes include lack of comprehensive resource management policies, insufficient and incomplete planning processes exacerbated by incomplete data on the status and fragility of the natural resource base and inadequate appreciation of the vital role that natural resources play in resource-dependent sectors, especially tourism and agriculture production. This results in decisions based on incomplete understanding of the consequences and long-term economic cost of improper use of resources.

Sustaining the resource base has not been a major consideration in economic or political decision-making, nor have the finite nature of the resource, the degree to which it is degraded, or the causes of the degradation been considered. As a result, conditions accelerating further decline in the pristine appearance of the region as well as reductions in productivity of soils, watershed value, reef and land biodiversity, and recreational areas exist. If these processes continue, losses will soon limit development options for economically viable and sustainable activities in tourism and agriculture. Moreover, unless degradation is reversed, damage will reach a level that requires massive investments for remedial actions, which neither the island microstates nor the larger world community will be able to provide. Thus, policies and decisions governing the direction of growth and the allocation of land and other natural resources have tremendous consequences for the economic, social and political future of the OECS countries.

Competing needs of development, sustainable resource use, and environmental protection make decisions difficult. Officials attempting to insure appropriate resource use are hampered by pressures from influential interest groups, lack of laws and regulations (or improper enforcement) protecting the resource base from inappropriate exploitation, and lack of funding to support the collection of data for evaluating the state of the environment. In addition, there is evidence that differential application of policy exists for local and foreign development interests which further undermines preservation of natural resources.

Institutional structures within which decisions are made are major sources of problems. Existing regulatory, policy, and legal structures are created and administered by a plethora of governmental agencies with overlapping, often conflicting authorities and responsibilities. On many islands, lines of responsibility and authority on environmental issues are unclear or completely lacking. Private sector organizations, including local communities, most businesses and NGO/PVO groups do not regularly participate in decisions affecting natural resources nor are they informed of these decisions.

RDO/C's second strategic objective supports comprehensive natural resources planning and management. RDO/C assistance will enhance the ability of OECS countries to formulate and implement approaches for using natural resources in environmentally and economically sound and sustainable ways. Further, RDO/C will assist the OECS countries to increase the level of knowledge among private citizens and public servants about the causes, consequences and means of preventing or ameliorating environmental degradation.

Relationship to LAC Strategic Objectives: RDO/C's strategic objective supports the LAC Bureau sub-objective of preservation and sustainable use of natural resources. As the LAC sub-objective acknowledges, sound environmental management is essential to achieving broad-based, sustainable growth. In the Eastern Caribbean, sound natural resource management and environmental protection is indispensable for growth and development, especially in agriculture and tourism.

Implementation Strategy: The Mission's program will address this objective by devoting resources to the achievement of four requisite outputs:

- o Natural resource policies and regulations developed and accepted;
- o Environmentally sound agricultural products and practices developed;
- o Increased local participation in the management and use of natural resources; and
- o Improved public and private sector capacity to manage natural resources.

Output Number 1: Natural resource policies and regulations developed and accepted. It is essential that the region adopt appropriate environmental policies and enact and regulate appropriate environmental laws where now lacking to properly manage the natural resource base and ensure future, sustainable economic activity. A related problem is unclear responsibilities and authorities for enforcing and interpreting environmental regulations that now exist. Lack of regulations of existing laws concerning environmental analysis for development and conservation of natural resources makes enforcing these laws extremely difficult. Many of the specific policies, laws, regulations, and plans envisioned will be identified by the targeted countries themselves as A.I.D. activities progress. RDO/C activities will support the enactment, regulation, and enforcement of laws to safeguard natural resources, the use of reliable natural resource data in planning and decision-making, the establishment and implementation of environmentally sound development plans, and the adoption of appropriate pricing policies to reflect the economic value of natural resources. The specific interventions contributing to the attainment of this program output are: Environment and Coastal Resources, West Indies Tropical Produce Support, Caribbean Policy, and Caribbean Law Institute.

Output Number 2: Environmentally sound agricultural products and practices developed. Agricultural production is both a primary economic activity as well as a major source of environmental degradation in most of the OECS countries. Traditional agricultural activities include forestry, fisheries, and crop production; non-traditional activities include eco-tourism, watershed management, and biodiversity conservation such as marine parks and natural area preservation. The Mission will focus on identifying and disseminating technical packages for new agriculturally-based products or for managing traditional agricultural

activities better from an environmental perspective, ensuring that the economic returns to farmers remain at acceptable levels. The following set of activities will contribute to the attainment of this program output: Environment and Coastal Resources, West Indies Tropical Produce Support, and Private Sector Support.

Output Number 3: Increased local participation in the management and use of natural resources. Effective management of the natural resource base requires participation, understanding, and approval of not only government officials but also private sector groups including NGO/PVO organizations, developers and communities affected by the management of the resource base. RDO/C will assist OECS countries in developing, testing, and disseminating methodologies such as community management for designing, reviewing and implementing development activities impacting on the environment. Public involvement in environmentally sensitive development is critical if the trend of incomplete analysis of the impact of development on the natural resource base is to be reversed. Grassroots efforts will be encouraged and supported for resolving specific resource-based management problems including waste management, water quality, eco-tourism development, and fisheries and reef management. The specific interventions contributing to the attainment of this program output include: Environment and Coastal Resources, West Indies Tropical Produce Support, and Caribbean Policy.

Output Number 4: Improved public and private sector capacity to manage natural resources. This output will complement the other three outputs through the provision of training and technical assistance to both individuals and institutions influencing the management of natural resources. Training will include long-term and short-term formal courses as well as innovative special activities such as internships with U.S. environmental institutions and on-the-job training. Services of an international PVO will assist in this effort. Small grants will be given to regional NGO/PVO organizations to improve their ability to affect environmental decisions in the region. Graduate research will be supported to find solutions to regional environmental problems. Activities supportive of this program output include: Environment and Coastal Management, West Indies Tropical Produce Support, and Caribbean Leadership and Development Training.

III. OTHER ACTIVITIES

RDO/C currently provides or is planning support for the following activities which do not directly fit our strategy: drug awareness, AIDS awareness, health care policy, and RHUDO Regional Disaster Mitigation.

A. Drug Awareness

At a recent meeting, prime ministers of the region cited illegal drug use as a serious threat to the social fabric of their countries. They acknowledged the need to reverse an ominous rise in the use of crack cocaine that is contributing to an increase in crime. USAID has responded to this threat with the \$450,000, two year pilot PVO-implemented program to expand the awareness of both officials and citizens of the scourge of drugs. This assistance effort is supportive of our strategy in the following ways: (1) other things being equal, a drug-free environment is more apt to attract and hold long-term investments essential to achieving our trade and investment objectives; (2) a drug-based culture would tend to undermine worker productivity and regional competitiveness; and (3) the high cost of combatting drugs and rehabilitating drug-addicts is not conducive to budget and fiscal policies supportive of trade diversification and economic growth. RDO/C's narcotics awareness program addresses LAC Bureau concerns and furthers other U. S. government agency efforts to stem the flow of drugs--within the region and to our own shores. We intend to authorize a follow-on project in FY 1994 that will build on experience gained under the pilot program and expand the fight against drugs.

B. AIDS Awareness

AIDS is another problem that must be addressed, not only because of its impact on productive members of society, but also because of the financial costs that families and governments will incur to deal with the disease. The Mission's AID Communications and Technical Services (ACTS) project provides assistance to the Caribbean Epidemiology Centre, an arm of WHO/PAHO, and to the Eastern Caribbean states for research, surveillance, training, and communications activities to limit the spread of the disease. RDO/C believes that this project indirectly complements our efforts to foster productivity, enhance competitiveness and thereby attract investment to the region.

C. Health Care Policy

RDO/C has carefully weighed the pros and cons associated with undertaking the planned FY 1992 Health Care Policy Planning and Management project and concluded that the project's advantages are substantial. The project's primary objective is to assist OECS countries to reexamine the mechanisms by which health care services are provided. Currently, such services are rendered primarily by the public sector and constitute between ten and thirteen percent of government budgets, rising to

seventeen percent in one instance. The project would identify alternative procedures for providing both preventive and curative health care, including an expanded role for private sector health providers, greater reliance on fee-for-service techniques, and the identification and implementation of efficiency improvements in the public health sector. This project objective is supportive of the Mission's strategy of increasing and diversifying trade inasmuch as the region's heavy reliance on trade-based revenue sources will be targeted for reduction under other RDO/C projects, and commensurate reductions in public expenditures in the health and other sectors will facilitate such trade-related tax reforms. Finally, the receptivity of both health and finance ministers as well as other senior officials to the proposed project has been overwhelmingly positive.

D. RHUDO Regional Disaster Mitigation

The Caribbean Disaster Mitigation Project (CDMP) was formulated by the Regional Housing and Urban Development Office (RHUDO/CAR) with support from the Office of Foreign Disaster Assistance. The CDMP will provide an avenue and resources for Caribbean AID missions to support practical and self-sustaining disaster mitigation initiatives in the areas of urban infrastructure, lifeline facilities and shelter. The key objective of the CDMP is to establish sustainable mechanisms for disaster mitigation which would prevent significant loss of life, considerably reduce physical and structural damages, and increase the confidence level of investors in the region.

The CDMP is complementary to the strategic objectives of the Mission's program; i.e., increase and diversify trade, and improve the management of natural resources. Both the proposed structural measures of reinforcing key structures and the proposed policy measures of regulating buildings through appropriate and regionally accepted codes and ordinances are achievable, would prevent significant loss of life, huge economic losses and create a more stable environment for trade and investment. For these reasons, RDO/C is highly supportive of the Caribbean Disaster Mitigation Project.

RDO/C's Infrastructure Office, which has responsibility for coordinating disaster relief efforts in the Mission, will engage in information sharing with RHUDO and CDMP consultants and participate in progress reviews during project implementation.

REVISED ACTION PLAN

I. PORTFOLIO ADJUSTMENTS

The Mission has closely examined both its strategy and related action plan with a view to assuring conformity with the foreign policy objectives of the region; in particular, the Enterprise for the Americas Initiative. Over a transition period of approximately two years, RDO/C will be phasing out activities that are unsupportive of the strategy and adding activities which support the strategy. The overarching objective of the proposed strategy is to increase trade and investment that is sustainable over the long-term.

A. New Project Initiatives

RDO/C plans only three new starts for the FY 1993-94 period. One new start -- Private Sector Support (538-0195) -- is planned for FY 1993, while two -- Policy Reform Program Support (538-0196) and Drug Abuse Prevention (538-0191) -- are planned for FY 1994.

Both the Private Sector Support (PSS) project and the Policy Reform Program Support (PRPS) non-project assistance will directly address RDO/C's trade strategic objective. More specifically, both will support the achievement of the improved policy and regulatory framework implemented program outputs. PSS will be an essential complement to the Caribbean Policy project in assuring that private sector interests are adequately and appropriately reflected in policy reforms being implemented in the region. As another complement to the Caribbean Policy project, the PRPS non-project assistance is planned to provide the incentive and support countries in the region may need to implement the necessary policy and regulatory changes identified under the Policy project and other policy-related projects in the RDO/C portfolio. Based on recipient country compliance with specific conditions precedent related to the adoption of appropriate policy reforms, non-project assistance (cash transfers) will be provided to support the implementation of the new policies or regulations.

The Drug Abuse Prevention project, scheduled as an FY 1994 new start, will fall under the Mission's "other" category and is justified on the basis of the growing narcotics problem in the Eastern Caribbean region. We believe that much of the design work, including the policy and institutional analyses, recently undertaken in developing the Caribbean Policy project will help to determine the design of both the Private Sector Support project and the Policy Reform Program Support non-project assistance. We are also planning a private sector assessment for FY 1993 which will help us refine our options for private sector strengthening under the PSS project. Once we have the Caribbean Policy project in place and the private sector strategy in hand, we expect to be able to refine our concepts for these two activities and move forward on the designs relatively quickly.

B. Terminating Activities

In FY 1993, we plan to terminate four projects. These are: Agriculture Venture Trust (AVT), Investment Promotion and Export Development, Dominica Agriculture Sector Support, and Caribbean Justice Improvement. Several of these projects -- most notably AVT and Dominica Agriculture Sector Support -- have been directly supportive of the new strategy in assisting to develop an improved policy environment and more competitive products to enhance the Eastern Caribbean's competitive trade position. The new starts outlined in the previous section (i.e., PSS and PRPS) will help to refocus the program in a more policy-oriented direction consistent with the Mission's new strategy. Although the Caribbean Law Institute project is scheduled at present to end in FY 1993, we intend to extend this activity until FY 1995 due to its direct strategic contribution to improving the regulatory framework.

In FY 1994, an additional six projects are scheduled for termination. These are: Small Enterprise Assistance, Agricultural Research and Extension, Presidential Training Initiative for the Island Caribbean, Basic Needs Trust Fund, Drug Abuse Prevention and Education Pilot, and Population and Development projects. While the current Project Assistance Completion Date for the West Indies Tropical Produce (TROPRO) project is FY 1994, we intend to extend this project in order to continue progress already underway in private sector agricultural diversification and expansion of non-traditional agricultural trade opportunities.

An additional point on terminating activities is worth mention here. The Infrastructure Expansion and Maintenance Systems project is a large umbrella project which, as a whole, is not scheduled to end until FY 1995. However, the project is receiving its final obligation in FY 1992, and two of the three remaining sub-projects (Grenada Infrastructure Revitalization and St. Vincent Infrastructure, both of which are major efforts in and of themselves) will be ending in FY 1993. The remaining sub-project, Regional Utilities Maintenance (RUMP), will be completed in FY 1995.

C. Phase-Out Plan

Having listed projects which we intend to terminate in FY 1993 and 1994, it is important that we discuss our rationale for ending certain projects at a specified time. In particular, it is appropriate to mention the Small Enterprise Assistance (538-0133) project (SEAP) which has been the subject of recent discussion. Since the June POD/AP review, RDO/C has undertaken a detailed review of this project to assess the most appropriate course of action. As a result of our review, we have determined that this project (1) has been successful to date (we refer to the December 1989 evaluation), (2) is directly supportive of our new strategy (in terms of developing competitive products and promoting more appropriate private sector policy) and (3) needs to be phased out in as rational (i.e., non-precipitous) a fashion as possible in order to ensure the long-term sustainability of the National Development Foundations

and their assistance to small enterprises, thereby protecting the AID investments made to date. While we understand and concur with LAC/W's concerns regarding the appropriate balance between policy-oriented and "firm level" activities, we also are concerned about RDO/C's credibility in (and resultant ability to work with) the Eastern Caribbean and about the loss of investments already made were we to undertake too premature a project termination. As a result, we propose to move this project's termination up from FY 1995 to FY 1994 and reduce its planned LOP obligations from \$7.8 million to \$6.2 million. In this way, we believe that we can retain the integrity of the project while still addressing LAC/W and Mission concerns regarding resources (both financial and management) required.

We also note that the Basic Needs Trust Fund is being extended in late FY 1992 for twenty months, i.e., until FY 1994. Discussions regarding this extension (and/or an RDO/C contribution to the Caribbean Development Bank's Special Development Fund) far preceeded the development of our strategy. While this project does not directly address our strategy, there are long-standing regional sensitivities regarding RDO/C's participation in this project which lead us to believe that it is extremely important for us to fulfill our commitment to this project. For reasons of maintaining credible and productive working relationships in this region, we consider it critical to complete our planned obligation to this activity.

The policy objectives of the Dominica Agriculture Sector Support program, while directly supportive of the Mission's strategy, will be addressed by the Caribbean Policy project. There are no plans at this time to undertake any additional Eastern Caribbean country-specific policy activities. We note, however, that Grenada may require some country-specific assistance as its structural adjustment program unfolds.

The remaining projects to be terminated in FY 1993-1994 (i.e., IPED, AVT, Agricultural Research and Extension, Population, Drug Abuse Prevention, and PTIIC) will be phased out as previously scheduled.

D). Management Unit Analysis

RDO/C will have 19 active projects at the end of FY 1992, 16 by the end of FY 1993, 12 by the end of FY 1994 and only 8 by the end of FY 1995. Thus, our portfolio will be reduced by half within two years (i.e., from 16 in FY 1993 to 8 in FY 1995). By FY 1995, our portfolio will be closely tailored to our two strategic objectives, with "firm level" activities terminated and only two "other" projects (drugs and health care) still active, both of which are supportive of the strategy (see Section III of the revised POD).

II. RESOURCE REQUIREMENTS

A. Operating Year Budget

In preparing this revised Action Plan, RDO/C assumes an annual Operating Year Budget for the FY 1993-94 planning period of \$18 million in Development Assistance and Economic Support Funds. Based on the new starts and project completions/terminations as outlined in the preceeding section and on the outstanding mortgages for on-going projects, we project a reasonable mortgage through FY 1994. Our primary concern regarding program planning for this period is the distribution of DA funds by functional account, specifically the provision of adequate PSEE funds to implement our trade-oriented portfolio.

B. Operating Expenses

RDO/C is currently assessing its staffing situation and determining where staff reductions should be made in order to ensure optimal program management. Since this assessment is still in process as of this writing, the operating expense figures presented here reflect where our staffing reductions stand at present. As we proceed in our staff reductions assessment, we will continue to revise our operating expense budgets for FY 1993 and FY 1994. It is important to note, however, that our operating expense budgets are unlikely to be significantly reduced in the short run regardless of the size of our staff since savings in salaries as a result of staff reductions will be largely offset by severance payments during the FY 1993-1994 planning period.

At the present time, RDO/C's FY 1993 required operating expense level is \$3.4 million, a very modest increase over our \$3.355 million FY 1992 level. This modest increase is caused mainly by an FY 1992 FSM salary increase of approximately nine percent, increasing FSM direct hire and PSC costs by over \$100,000 per year. This increase has been partially offset by a reduction of two U.S. direct hire staff and of three FSM positions. RDO/C considers the likely demise of Wang as a viable supplier of hardware and software support to be a major threat to our future operational efficiency and accountability. Because the Mission must address the issue of Wang obsolesence, the proposed budget includes \$80,000 for computer equipment purchases. If the Mission does not receive the full requested level, we would first slow the replacement of Wang equipment although it would not be prudent to extend our vulnerability to Wang's very uncertain future. Future shortfalls in funding would force more FSM staff cuts, significantly lessening the Mission's operating efficiency and project monitoring capability.

In FY 1994, RDO/C will be able to continue to operate at essentially the same cost as in FY 1992 due mostly to reductions in staff. We have no choice but to continue with the Wang replacement plan and have included \$80,000 for that purpose.

C. Staffing Requirements

RDO/C recognizes the importance of controlling operating expense requirements and the implications of staffing levels on operating expense needs. In an effort to keep operating expense levels at a minimum, RDO/C has met each of its staff and management reduction targets over the last several years. As noted above, we are currently engaged in an exercise to make additional reductions over the next several years. As can be seen from the chart below, RDO/C will reduce U.S. direct hire positions from twenty in FY 1992 to sixteen in FY 1994; FSN positions for the same period will be reduced from sixty-six to fifty-three.

	<u>FY 92</u>	<u>FY 93</u>	<u>FY 94</u>
USDH	20	17	16
non-USDH	66	56	53
Total	86	73	69

D. Non-Federal Audit Capability

RDO/C has commenced implementation of its FY 1992 non-federal audit program which will cover AID contracted non-federal audits, as well as the recipient contracted audits. At present, four AID contracted non-federal audits and ten recipient contracted audits are planned for FY 1993; six AID contracted non-federal audits and 15 recipient contracted audits are currently planned for FY 1994.

E. Local Currency

With ESF programs, RDO/C employs both sectoral and general budget programming to assist governments to adopt and implement macroeconomic and sectoral policies that stimulate growth and sustain development in the private sector. The focus of the FY 1994 ESF cash transfer program will be the Policy Reform Program Support non-project assistance. This project will provide foreign currency to support the implementation of appropriate policy reforms identified and enacted under the Caribbean Policy project; local currency generated from this foreign currency provided will be also be used in support of the implementation of appropriate policy reforms.

NEW PROJECT DESCRIPTION

MAC BUREAU OBJECTIVE/SUB-OBJECTIVE: Achievement of broadly based economic growth and encouragement of economic policies that promote investment, productive employment, and outward-oriented diversification.

MISSION STRATEGIC OBJECTIVES: Increased and diversified trade.

PROGRAM TITLE: Private Sector Support

PROJECT NUMBER: 538-0195

FUNDING: \$6,000,000 **LOP:** 4 years

TYPE OF FUNDING: PSEE **INITIAL OBLIGATION:** FY 93

Problem: The Eastern Caribbean Region relies almost exclusively on tourism, agriculture, light manufacturing and services for its income and foreign exchange earnings. As a result of widely practiced but discredited import substitution policies, the markets of this regions mini-states are among the most protected in the hemisphere. In light of the new world trade environment, and the implications this has for the economies of the Eastern Caribbean, there is a recognition that comprehensive policy reforms will have to be undertaken to maintain the region's competitiveness. The region is also plagued by a fragmented private sector which lacks voice and unanimity in defining sectoral needs and policy agendas. As a consequence, the region requires considerable assistance in addressing a broad range of private sector economic issues and sector strengthening strategies.

Program Description: This project will work with the business community of the Eastern Caribbean to build support for changes which will permit these countries to become fully competitive participants in the emerging free trade markets of the world.

As an integral component of developing the required policy, legal and regulatory environment for trade liberalization and investment stimulation, the project will support activities of private sector groups to develop sector specific trade policy agendas. It will also support the strengthening of private sector consensus and voice in the policy dialogue regarding trade liberalization. In addition, the project will assist the promotion and testing of new private sector strategies/interventions for commerce expansion and development, both within and outside the Eastern Caribbean.

Specific activities will be defined following the Inter-American Development Bank's forthcoming diagnostic analysis of investment impediments, and a separate contract assessment of the potential for additional business development in the Eastern Caribbean. Major components will include:

Training and technical, financial, and administrative assistance to private producer, trade and other business service associations to strengthen both their role in policy dialogue and their ability to serve their members and clients. This will include support for developing open fora and frank discussions about the economic policy alternatives for the region, and for dissemination of information derived therefrom as a basis for building a constituency for needed changes in the broader private sector of the region. Participating organizations may include such groups as the Caribbean Association of Industry and Commerce (CAIC), the Caribbean Hotel Association (CHA), the Caribbean Tourism Association (CTA), the Eastern Caribbean Organization of Development Foundations (ECODEF), National Development Foundations (NDF), labor unions, as well as newly emerging entrepreneurial groups.

Support for analyses of factors affecting business growth, and pro-active plans to improve national commercial activities such as: commerce diversification, development of non-traditional products, linkages with national producers, and development of service industries, as well as other policy issues affecting general business development and trade.

Funding (but not operating expenses) for various private sector organizations/associations to identify particular areas of comparative and competitive advantage in international and regional markets, as well as financial/technical support for trade development strategies, implementation of market information systems, and other interventions which contribute to selected sector strengthening in areas such as tourism, light industry/micro-enterprises, and services, e.g. electronic information processing.

Policy related components of the project will complement activities of the Caribbean Policy Project (which will work directly with the governments of the Eastern Caribbean on major economic issues) and provide building support for targeted changes in the business community.

Planned Accomplishments: The project is expected to help the private sector become a full partner with local and national governments, and regional organizations, in creating a broad based sustainable economic environment throughout the Eastern Caribbean. Implicitly, this should improve foreign exchange earnings, enhance regional access to foreign investment capital and know-how, and help increase levels of commerce and thus employment.

Planned Implementation Arrangements: Based on the results of project institutional design analyses, RDO/C will execute a Cooperative Agreement with one or more private sector associations, involving broad representational interests throughout the region, to coordinate project activities, provide organizational development assistance to selected private sector organizations and/or sectoral interests, and assist in the formulation of key business

simulation policies. RDO/C will also execute a HB 13 grant with U.S. based organization(s) to provide technical assistance to selected private sector organizations and their membership. In addition, the project will fund invitational travel of relevant USG officials, coordinated through AID/Washington, to provide inputs to private sector organizations on changes required to further liberalization of the trade and investment climate in the region, particularly as needs for such inputs are identified through the Joint U.S.- CARICOM Trade and Investment Council.

Consistency With Mission Strategy: The project supports RDO/C's goal of broad-based, sustainable economic growth stimulated by increased trade and investment that is environmentally sustainable.

Relationship To AID And Other Donor Activities: The project will support RDO/C's programmatic emphasis on policy reform, product and market diversification, and enhanced regional competitiveness. Other donors working with the private sector and on policy reforms in the Eastern Caribbean, such as the EEC, CIDA, IADB, and CDB will be consulted in the design of this project to further coordination and cooperation among the donor community and prevent possible duplication of effort. RDO/C is currently designing the Caribbean Policy project with a FY 92 expected obligation date. The Private Sector Support project is a companion to the Policy project. Coordination between projects will be managed through the Strategic Objectives Implementation Committee process.

Relationship To AID Policy Objectives: The project will support the Mission and the LAC objective of stimulating broad-based sustainable economic growth and encouraging policies that promote productive employment and outward-oriented growth.

Sustainability: No new organizations requiring recurrent budgetary support will be created by the project; rather, it will support specific, time-limited efforts to promote private support for trade and investment liberalization. Sustainability of activities will not be a problem since no recurring operational expenses will be funded under the project. The legal, policy and regulatory changes supported by the project will, once enacted, become self-sustaining.

Mission Management Role: The project will be managed by a USDH in the RDO/C's new Trade Development Office.

Potential Issues and/or Innovative Approaches: Most effective means of implementation; technical assistance requirements; selection of private sector organizations; performance indicators and coordination with other RDO/C private sector projects.

NEW ACTIVITY DESCRIPTION

AC BUREAU OBJECTIVE/SUB-OBJECTIVE: Achievement of broadly based, economic growth/Adoption of and adherence to economic policies that promote investment, productive employment and diversification.

MISSION STRATEGIC OBJECTIVES: Broadened diversified trade and investment.

PROGRAM TITLE: Policy Reform Program Support

PROJECT NUMBER: 538-0196

FUNDING: NPA 12,000,000 LOP: 5 years

TYPE OF FUNDING: ESF/PSEE INITIAL OBLIGATION: FY 94

Program Description: The program will offer financial incentives to Eastern Caribbean governments to adopt and implement policies that will support the economic diversification of the region, liberalize trade regimes and develop competitive investment climates as these countries move forward to participate in the enterprise for the Americas Initiative. In addition, it will provide directed technical assistance, both from official USG sources and appropriate consultants, to analyze policy options and implement changes. As a component of the USAID's comprehensive approach to supporting the Eastern Caribbean's integration into the global market (with the Caribbean Policy Project and the Private Sector Support Project), the program will develop conditionalities based on the joint A.I.D./Inter-American Development Bank/Caribbean Development Bank investment sector diagnostic study and will complement actions of these donor partners to support development of competitive, diversified productive capacity in the region and integration of the region's economies in the global economy. In addition the project will respond to assistance priorities identified in the Joint USG-ARICOM Trade and Investment Council as critical to moving the ECS forward to fully participate in the EAI. These conditionalities will be subject to A.I.D./Washington approval.

Planned Implementation Arrangements: A Handbook 4 Program Assistance Agreement will be executed with the Executive Secretariat of the Organization of Eastern Caribbean States. The program will be coordinated by the Economic Affairs Secretariat of the OECS.

Consistency with Mission Strategy: The program supports RDO/C's goal of increased trade and investment stimulated by appropriate policy reforms.

Relationship of Project to AID Policy Objectives: The program will support the LAC objectives of stimulated broad-based sustainable economic growth and encouraging policies that promote

investment, productive employment and outward-oriented growth.

Relationship to AID and Other Donor Activities: The program complements several RDO/C projects that will promote policy reform and supports other donor (EEC, CDB, CIDA, IDB) efforts to encourage policy changes in the region.

Sustainability: Once incorporated into a country's legal and administrative codes, the policies supported by this activity will become self-sustaining, although this or other projects may need to provide specific technical assistance for implementing the changes supported by the project.

Mission Management Role: The program will be managed by the Mission Private Sector Office.

Potential Issues and/or Innovative Approaches: Identification, monitoring and evaluation of policy reform; identification and budgeting of implementation costs of specific policy changes; coordination of assistance with other USG agencies and donors.

NEW PROJECT DESCRIPTION

LAC BUREAU OBJECTIVE/SUB-OBJECTIVE: International cooperation in addressing specific challenges to the attainment of broadly-based, sustainable economic growth and the evaluation of stable, democratic societies/formulation and implementation of USG strategies for dealing with issues of particular concern.

MISSION STRATEGIC OBJECTIVE: Other

PROJECT TITLE: Drug Abuse Prevention

PROJECT NUMBER: 538-0191

FUNDING: \$2,000,000 LOP: 4 years

TYPE OF FUNDING: Education, Health INITIAL OBLIGATION: FY 94

Project Description: The project will expand on a FY 92 pilot activity to assist public and private sector organizations to implement a youth-oriented drug abuse prevention effort.

Planned Implementation Arrangements: The project will be implemented through a Cooperative Agreement with a U.S.-based PVO or a Caribbean regional institution, depending on the evaluation of the pilot project.

Consistency with Mission Strategy: This project is not directly related to the Mission's strategic objectives. However, drug abuse is a serious and growing problem in the Eastern Caribbean which, if left unchecked, will adversely affect trade and investment in the region.

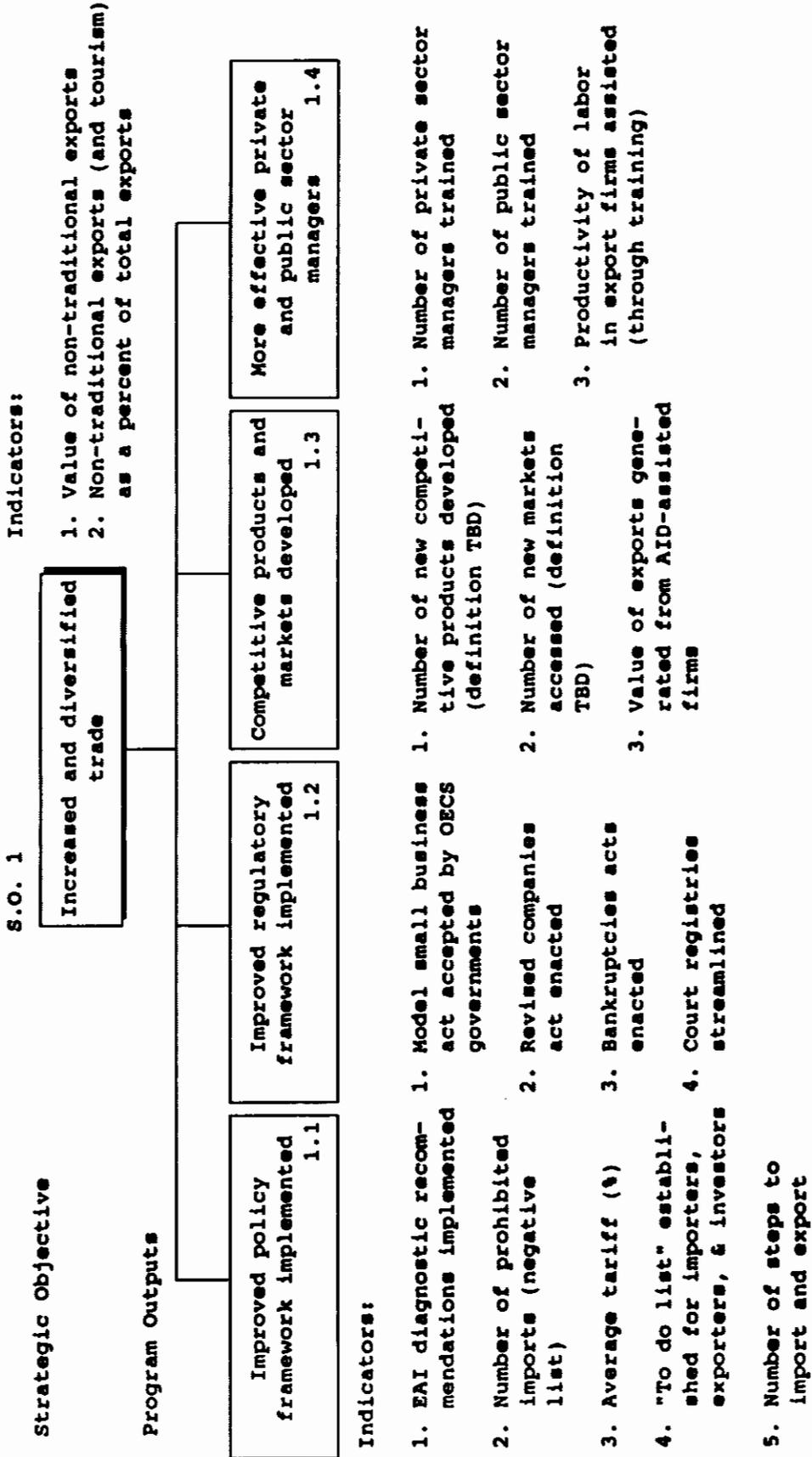
Relationship to A.I.D. and Other Donor Activities: Drug demand reduction activities, including USAID funded activities, are coordinated through an established Donor Coordinating Group. The project complements USAID-funded activities in the area of AIDS/STD Prevention and Control which aim to promote behavioral change consistent with a healthy lifestyle.

Relationship of Project to A.I.D. Policy Objectives: This project is fully consistent with the LAC objective of: "International cooperation in addressing specific challenges to the attainment of broadly-based, sustainable economic growth and the evaluation of stable democratic societies".

Sustainability: To the degree that the project succeeds in institutionalizing drug abuse prevention curricula in the schools, the school based education program will be sustainable.

Mission Management Role: The project will be managed by existing staff of the Office of Health, Population and Education.

Potential Issues/Innovative Program Approaches: Coordination with other donor funded activities; establishment of data collection and evaluation systems to assess the impact of project activities on vulnerable groups; definition of the respective roles of government and NGOs in drug abuse prevention efforts.



2. Monitoring of natural resource quality (e.g., water, forests, beaches, reefs, soil) being done at regional and national levels throughout the region
3. Number of national committees--with public & private sector representation--operating in OECs countries

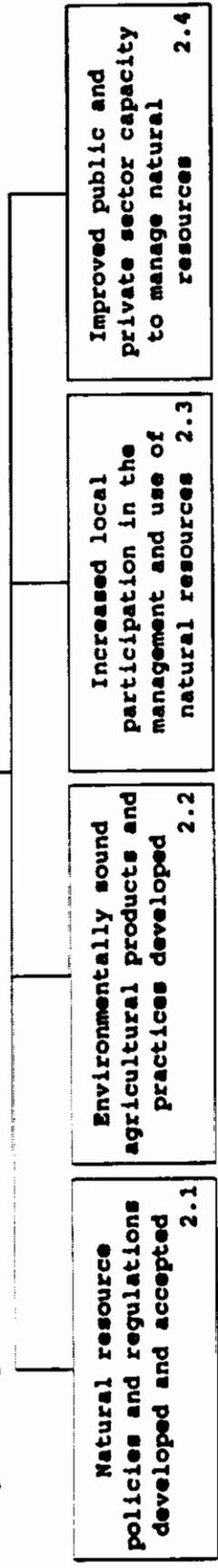
S.O. 2

Improved natural resource management

4. Number of annual regional meetings--at prime ministerial level--to discuss environmental problems
5. Number of add'l local site initiatives for environmental improvements in the region

Strategic Objective

Program Outputs



Program Indicators:

1. Number of OECs countries with documented lines of authority for NR decision-making
2. Number of OECs countries with regulations for environmental laws
3. Number of OECs countries with environmental plans
4. National policies reviewed for environmental impact
1. Water quality, biodiversity, & soil erosion levels (two ENCORE sites); other conditions (selected ENCORE sites)
2. Number of practices developed & disseminated
3. Percentage of farmers adopting new practices or crops, with no loss of income.
1. Number of environmental projects developed & implemented through community mgmt.
2. Number of environmental advisory committees operating at local levels
3. Number of gov't contracts awarded to NGOs/PVOs for environmental improvements
1. Number of NGOs/PVOs actively involved in environmental activities
2. Number of person-months of public and private formal training & workshops to increase understanding & implementation capability