



# The New Economy Project

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A USAID  
Project  
For Economic  
Growth

## **1 Introduction**

This document is the final report on the New Economy Project (NEP), an \$8 million USAID GBTI contract for professional services established in May 2000 between USAID and Carana Corporation, a SEGIR contractor. The report was prepared as stipulated under USAID contract PCE-1-801-98-00014-00 Task Order No.801, Clause 1.6 Reports.

The report serves two purposes. First, it is a synopsis of NEP implementation over the life of the project (LOP). It provides a summary of the project's evolution and impact and also highlights key modifications in project design vs. implementation. The synopsis fulfills our contractual obligation to generate an introspective review of the impact, problems encountered, notable successes and lessons learned over the four-year life of project (LOP).

Second – and more importantly - it offers USAID a design framework for future demand-led programs. The framework is interwoven as guidelines in various sections of the report. These guidelines evolved from implementation of the NEP model. We believe that they could be extremely useful for the future design/implementation of similar USAID programs.

## **2 Content and Layout**

The report is a strategic level summary of NEP's experience between 2000 and 2004. Therefore it does not provide in-depth details of project implementation. There are three reasons for this. First, the real value of NEP's approach lies in its adaptability and responsiveness to market dynamics. We have tried to explain how this works using examples of NEP/OEG relationships throughout this report. Second, there are considerable details on NEP activities that 1) are well documented on the NEP website; 2) have been noted in eight semi-annual work plans and reports filed with OEG; and 3) have been prepared by two separate independent USAID evaluators in 2003. In the case of the latter, their assessments provided separate arms-length perspectives on NEP<sup>1</sup>.

There are 13 sections in the body of the report plus supporting appendices. Sections 3 – 10 provide perspectives on how the project unfolded. This begins with Section 3, Background and Setting Revisited and ends with Section 10, NEP's Modus Operandi. Each section highlights in italics key features of the program over the LOP.

Section 11 looks at major results and impact of the project at the IR level. Selective vignettes are highlighted to demonstrate the broader implications for the business environment. Testimonials are also included because they reflect the clients' point of view about assistance received and the perceived value to their organization(s). This section also includes notable successes that will be further developed by clients beyond

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<sup>1</sup> NEP was evaluated twice in 2003 – the first by Development Associates and the second by FMI Inc. Both reports provide arms length assessments of the project's effectiveness and impact. Therefore there is limited, if any, value in Carana Corporation providing a third report of this nature to its client, USAID.

NEP's existence (with or without additional USAID support). These types of activities will continue to transform Jamaica's business environment and are expected to generate productivity benefits to the economy as a whole over the next 5 – 10 years.

Section 12 is a retrospective look at the problems encountered and lessons learned. Finally in Section 13 we offer recommendations for leveraging planned, and on-going activities, which are seen as business environment (improvement) priorities by both the private and public sectors in Jamaica.

### 3 Background and Setting Revisited

At the time the project was created in October 1999 Jamaica's economic setting was relatively negative. For example, despite a favorable external environment, GDP since 1996 was still contracting and all major productive sectors were adversely affected by this decline. The financial sector, which collapsed in 1996, was not yet fully recovered although FINSAC [the state-owned financial sector restructuring entity] had completed most of its work. Also tax revenues had declined and there was a marked deterioration of the island's infrastructure. At that time USAID's view was:

*“ . . . In an environment such as this, it is important that every effort be made not to impede business development. Procedures need to be in place to make establishing a business a relatively simple matter. This has to be followed by simple and easy to understand business regulations.*

*In addition, the ministries and government agencies that work with businesses on a day-to-day basis must have clearly understood regulations and guidelines in place. This is especially necessary in such departments as Customs and in such ministries as Industry, Commerce & Technology, Health and Agriculture . . . micro and small enterprises will need access to timely credit, new financial instruments will have to be explored and the retail side of micro and small enterprise lending will have to be expanded island-wide . In order for business constraints to be removed, attitudes of key business leaders need to change. Political and business leaders must be able to identify constraints<sup>2</sup>.*

Fortuitously for Jamaica and NEP, Jamaica's negative trend bottomed-out in 2000 – 2001. It remained moderately “positive” in 2002 – 2004. The trend included modest GDP growth of 1 – 2 % and the completion of the consolidation of various retail operations in the banking sub-sector. Other positive signs were increases in export earnings in the tourism, the bauxite industry and shipping industries.

Additionally, remittances from abroad rose from US\$600 million annually in 1999 to \$1.2 billion/year in 2003, resulting in sustained consumer spending in the economy. The Government of Jamaica's (GOJ's) phased telecoms liberalization program was also completed in mid-2003. This freed up various ICT markets and stimulated introduction of new productivity tools such as comprehensive online banking via cell phones and the

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<sup>2</sup> Excerpt from Section 1. BACKGROUND, B) Setting and Context of contract OUT-PCE-I-801-98-00014-00, Task Order 801.

introduction of e-commerce services. Finally, a number of GOJ executive agencies started to implement various modernization programs following completion of the World Bank-funded five-year Public Sector Modernization Program (PSMP) in 1999. The majority of these initiatives were also IT-based.

Therefore by 2001 the “setting” - as represented by a combination of positive economic activity and productivity improvement efforts – translated into a receptive environment for NEP’s “demand-led” services.

#### **4 Strategic Objective**

In light of Jamaica’s anaemic record in the 1990s USAID decided to focus its economic growth strategy on activities aimed at fostering a policy and regulatory environment conducive to improving competitiveness (i.e. via productivity gains) of the small, medium and micro enterprise (SME) sectors. Consequently the Mission’s Strategic Objective for its economic growth program (referred as SO1) was defined as: “Improving the business environment for developing small, medium and micro enterprise sectors.”

#### **5 Performance Indicators**

The overall performance of the Mission’s Office of Economic Growth (OEG) was to be measured by a proxy barometer: the number of new businesses registered annually. Three intermediate results (IR) were chosen as the underlying indicators of OEG’s effectiveness in meeting SO1:

- IR 1.1 Key business processes reduced while fostering competition
- IR 1.2 Business skills of companies improved
- IR 1.3 Private financing for the micro and small business sectors increased

Within a budgetary context, the Carana GBTI contract represented 50% of OEG’s committed resources for 2000 – 2003. Consequently USAID expected that NEP would make a substantial contribution (obviously, at least 50%) to a series of annual targets set for each IR.

Partly because we were “the new show in town” the total quantitative intermediate results became our “de facto” targets. By the end of the first six months of implementation the NEP team had adopted them as key benchmarks for measuring operating success (See IR target details under Section 6, Anticipated Results, below).

#### **6 Statement of Work**

Under the Task Order, CARANA’s primary obligation was to help OEG attain results identified in the USAID/Jamaica strategy for SO1. In line with the IRs, this SO required Carana to work with the public and private sectors to 1) reduce business constraints, 2)

improve company skills and 3) develop financial mechanisms that would increase SME access to private capital.

Three essential inputs were stipulated by USAID: a long term team plus administrative services; short term technical assistance to identify and then resolve key bottlenecks that impact business development; and commodities to support NEP-funded activities in the private and public sectors.

A number of opportunities for intervention that were incorporated in the SOW suggested some potential activities that the contract *could* undertake:

Under IR 1.1 - designed to reduce business constraints – these opportunities included 1) preparation of a comprehensive roadmap of procedural bottlenecks in business facilitation by GOJ agencies and ways to improve/streamline key government services provided to the private sector; 2) establishing a Jamaica Chamber of Commerce business leaders' roundtable; 3) assistance in continued liberalization of the ICT sector and 4) assistance in the transportation sector to reduce time and productivity lost due to congestion.

Under IR 1.2 - which was aimed at improving company skills - Carana was expected to explore potential follow-on training activities by the Jamaica Exporters' Association (JEA). However, this was the only illustrative opportunity for intervention outlined in the GBTI contract.

Under IR 1.3 it was anticipated that NEP would help to develop financial mechanisms to increase private funding to SMEs. To this end, the contractor was expected to work with a new financial institution, resuscitate a micro enterprise loan program (i.e. under new ownership) and to use STTA to develop mechanisms intended to act as bridges between financial organizations that had liquidity, and the SMEs needing such resources and services.

## **7 The Demand-Led Model**

*A key feature of the SOW was that it was deliberately indicative – intended to serve only as a broad based framework within which the contractor could identify and respond to private and public sector priorities. A second implication was that this approach reflected the Mission's preference for a "demand led" approach to implementation of OEG activities.*

But, in terms of project design and implementation what does the term "demand led" actually mean and imply? First, "demand-led" is not the same thing as "demand driven." Second, a "demand-led" model is a combination of the following strategic and operating features:

1. *The market always leads* i.e. key entities in the private and public sectors define what their priorities are. In turn, this defines what the project priorities should be.

2. The potential impact of a demand-led TA program is a factor of market dynamism.
3. Success or failure also depends on the “fit” of the SO and its expected intermediate results with evolving market priorities. If the SO and IRs do not reflect what the market wants to do these indicators will have to be revised over the LOP.
4. Even if the overall program is “on target” some performance indicators may have to be dropped, revised or shelved temporarily if market interest in that area (e.g. business skills improvement) is lukewarm or lackluster.
5. Work plans should be transitional and only partly definitive. Initially, the contractor’s plans will be indicative. These projections will be limited to exploring a combination of a) opportunities in a prospective client pipeline and b) walk-ins, i.e. cold calls on the project by interested parties looking for support for new initiatives and programs. Our experience is that about 50% of the activities we undertook were new, only entering our pipeline during the work plan implementation period.
6. Composition of the long-term team resident team should be transient during the first twelve months of implementation. Depending on demand, the skills sets required may require a shift in emphasis from one area into another. One consequence is that composition and skills by the start of Year 2 may have to be completely different to that of the start-up team.
7. Clients always lead. *STTA activities are conceived by prospective clients instead of USAID or its contractor.* Similarly, the long-term team’s role is distinctly supportive of clients’ programs. Therefore the resident team must avoid the role of surrogate project manager/implementer.
8. The contractor becomes a “valued added” service provider. This means that clients must a) “own” their projects, b) have decided to go ahead with implementation one way or the other and c) have the financial and managerial capacity to implement the proposed activities successfully. In demand-led programs all activities are expected to be sustainable beyond the life of project (LOP).
9. Assistance should be non-discriminatory. This means that private entities that are already highly successful are treated as eligible candidates in a demand-led program<sup>3</sup>. In other words, a deliberate strategy of leveraging the market will displace the conventional aversion of not working with larger competent entities.

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<sup>3</sup> Most SME assistance programs exclude large firms as potential beneficiaries or partners under conventional models of donor assistance.

10. Contract resources must be flexible, allowing for creative allocation and packaging of STTA resources – depending in client needs. So in a demand-led project, labor and commodity combinations should span the full spectrum - labor only, equal proportions of labor and commodities, or commodities only.

In contrast, the term “demand-driven” can be a euphemism for promoting pre-determined solution packages in the market place. These solutions are created via donor identification of clear “needs” to stimulate or create new market activity. But these perceived priorities are usually nascent or yet-to-be developed market activities. Convinced that such deficiencies be addressed, donors design assistance programs to bridge supply with “unmet demand.” Similarly, in many demand-driven models donors confirm targets, modus operandi, eligibility criteria, and the range of challenges *before* implementation begins. Such requirements are usually embedded at the design stage and difficult to modify without first initiating external independent evaluations.

*The demand-led model is a “bottom up” approach while most demand-driven models are “top down”. Put another way, demand-led models like NEP respond to their [market] environments so that the nature of the assistance unfolds over the LOP. In comparison, many demand-driven programs are prescribed activities searching for takers [i.e. owners or homes] to fill donor-perceived gaps, deficiencies or constraints in emerging and developing economies.*

The guidelines for an effective demand-led program were themselves not predetermined at NEP’s inception. Instead, they evolved as part of the process of implementing this model in Jamaica. Illustrations of how some of these principles were applied are highlighted under relevant sections below.

## **8 Roles and Responsibilities**

The planned roles and responsibilities for contract implementation were laid out in the USAID/Carana Corporation GBTI contract under Section II, Mission Management, Section III, Long Term Contractor Furnished Personnel and Section IV, Tasks.

Under Section II, the Mission was to create an Activity Management Unit within SO1, i.e. the Office of Economic Growth. The AMU would determine the activities that the contractor would have to support in order for OEG to achieve its intermediate results. *The concepts for all activities were to originate at this level.* Furthermore it was supposed to be the AMU’s responsibility to draft an abbreviated statement of work (for the identified activities) to be later fleshed out by the contractor into client-specific STTA work. Additionally, a strategic objective team (SOT) was to be responsible for approving and prioritizing the AMU’s concepts. The concepts would be given to the contractor to develop. The contractor would then generate a work plan of proposed interventions that had been approved by the SOT at the concept level.

Reciprocal responsibilities were expected of the contractor. A long term team, consisting of a Chief of Party with business development skills, an SME activity manager with

finance skills, and an activity manager with institutional development skills were classified as core personnel. The long-term team would prepare the requisite work plans and help the SOT define the detailed benchmarks/milestones and targets. The contractor's team was expected to use STTA to implement "fleshed out" SOT-approved activities.

As is the case with most projects, NEP contract implementation digressed somewhat from both planned processes and expected operating interrelationships.

One difference was that concepts actually originated with clients and were then funneled through NEP to OEG for consideration prior to [NEP] developing a detailed statement of work for client acceptance and subsequent OEG approval.

A second distinction was that USAID demanded more "hands-on" roles of the long-term resident team than had been articulated in the GBTI contract. OEG's position was that the contractor's long-term resident advisors should spend considerable time with clients to provide them with hands-on technical assistance. In this scenario short term TA was to be used mainly for highly specialized "value added" infusions as part of activity implementation. This approach worked well initially but was abandoned because of the exponential growth in the number and variety of private and public sector activities being supported by NEP. Our long-term team became packagers and oversight managers as well as providers of specific technical TA to wholesale clients.

*Again, USAID's flexibility about process and implementation enhanced the project's overall effectiveness. Subtle changes, made within the first six months of NEP implementation, were the first emerging principles of a demand-led model. We let the market come up with its own concepts and then reshaped planned implementation methodologies to respond effectively to demand.*

## **9 Anticipated results**

There were no specific results stipulated in the USAID/Carana GBTI contract. Instead USAID anticipated that OEG would develop the expected outcomes as quantifiable performance targets. Within the first three months of implementation OEG and Carana agreed on the annual targets for the proxy indicator as well as annual targets for each of the three IRs. Targets vs. actuals were to be reviewed at Semi-Annual Reviews (SAR) – the cornerstone of the Mission's periodic assessment of its various programs<sup>4</sup>.

Issues about the level and suitability of these benchmarks were highlighted in the first evaluation of the project carried out by Development Associates Inc (DAI). The evaluators expressed concern about the adequacy of the proxy indicator – the number of new businesses registered – as a comprehensive measure of the SME sector's well being. As an alternative they recommended that this be replaced with a broad composite of

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<sup>4</sup> The term "Semi-Annual Review" is a misnomer since these SARs were carried out once yearly (in October or November. NEP participated in four SARs (2000, 2001, 2002, 2003) and our performance was measured in the latter three.

indicators that would allow USAID to obtain a better picture of the sector’s performance and progress.

Other concerns raised included the difficulty of measuring the removal of a constraint and the difficulty of measuring the extent to which technological improvements had been realized in beneficiary companies and institutions. Nevertheless, the important point here is that the targets were devised by USAID and agreed by Carana as the basis for measuring impact and contractor performance over the life of the contract. The targets and results for 2000 – 2003 are presented in Table 1 below.

**TABLE 1:SEMI ANNUAL REVIEW  
PERFORMANCE RESULTS 2001 – 2003**

**Objective Name: SO1 – Improve the business environment for developing the small, medium and micro enterprise sectors.**

Result Name	Year 1 (2001)		Year 2 (2002)		Year3 (2003)		Total	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual
IR1.1: Key business processes reduced while fostering competition	3	2	6	7	12	13	21	22
IR1.2: Business skills of companies improved	100	123	150	549 <sup>5</sup>	350 <sup>6</sup>	493	600	1165
IR1.3: Private financing for micro & small business sectors increased	1910	2629	2590	3151	3500 <sup>7</sup>	3463	8000	9243

Overall, NEP contributed at least 80% of the IR 1.1 and 1.2 results and, via three activities made a significant contribution to the IR 1.3 results<sup>8</sup>.

## **10 NEP’s Modus Operandi**

On the surface our modus operandi seems quite conventional for programs of this nature. For instance, our approach consisted of marketing efforts, screening and selection of activities to support (in collaboration with OEG). It also included a well-defined project

<sup>5</sup> 468 of the 549 SMMEs trained were via NEP activities.

<sup>6</sup> New target developed by OEG in May 2003. Revised from 200 to 350 in SAR Report of October 2003

<sup>7</sup> New target developed by OEG in May 2003. Revised from 3110 to 3500.

<sup>8</sup> Key

IR1.1 Number of key business processes reduced

IR1.2: Number of companies achieving technological improvements

IR1.3: Number of small and micro enterprises accessing financial products from assisted institutions.

planning system, identification of technical assistance resources and management of the STTA effort.

So was NEP's approach unique at all and, if so, what gave it this uniqueness?

We are tempted to claim that our methodologies were already well thought out from inception and that the approach itself dovetailed with a preconceived commitment to a demand-led strategy. But as the following subsections reveal the project took on an implementation persona that was shaped by the business environment itself.

## 10.1 Strategy

One cornerstone of NEP's operational strategy was the Carana recommendation that NEP focus on wholesaler rather than retail clients. Endorsed by USAID, this strategy allowed NEP to leverage the implementation capabilities of successful private firms, private sector organizations and public sector [business facilitation] agencies. This meant that firm-level assistance was not a project priority except in cases where the firm's core business was to provide productivity products and services to SMEs. As mentioned earlier, this strategy did not seek to exclude larger successful businesses and well run public sector entities. We saw such clients as effective conduits for transforming key services that, in turn, would result in sustained improvements in the business environment.

## 10.2 Marketing

NEP's marketing strategy emerged more like "the art of the accident" than a well thought out novel approach to project implementation.

At the start of the project in May 2000, NEP adopted typical market driven functions. For instance, we "identified" prospective opportunities based on constraints listed in USAID research papers. We followed through with a number of initial interviews with movers and shakers who we thought would commit to some of our proposed solutions. Consequently, our initial promotional efforts were conventional: we approached prospective clients to "sell" them on NEP ideas and technical services. Our condensed offer was that USAID would fund ideas that reduced constraints, improve company skills and increase SME access to new financial products and services.

None of the first stream of prospective clients was interested in what we put on the table. The typical response: "*what are you talking about and why should I consider your ideas at all? I am very busy and have lots of other things on my priority "to do" list for the next twelve months*". Translation: your ideas are not on my "to do" list for the foreseeable future.

In October 2000 we went back to the drawing board to rethink our approach based on market dynamics and what key decision makers were telling us.

Although both private and public sector decision-makers were interested in improving the business environment they were clearly nonplussed with our suggested activities. One reason was that economic liberalization over the last 15 years had forced the private sector to think, plan, and act more strategically than it had in the past. So by 2000 Jamaica's private sector and a number of key public sector agencies had institutionalized Strategic Thinking with 1 – 5 year planning and implementation horizons. Therefore one way to get larger “wholesalers” to focus on business environment issues was to identify activities that they were about to launch that also had considerable spin off benefits for the SME sector.

By November 2000, OEG agreed that we should reverse our approach by looking for opportunities that clients had already green lighted. The proviso was that those activities would have sustainable beneficial impact on the business environment for SMEs. Effectively, we replaced a top down approach with a bottom up one.

This *volte face* elicited extremely positive interest and response. The revised NEP thrust was to help clients with plans that would reduce constraints, improve skills and increase SME access to finance. However those activities had to be close to or at the top of their priority “to do” lists. The new rationale used – that the clients knew what was best and that our role was to add value - became NEP's operating philosophy. Prospective clients also responded positively to one more selling point – that assistance was a “win-win” mechanism for both the client and USAID. This revised marketing strategy was the genesis of what was to become NEP's “demand-led” program.

### 10.3 The Processing System

An efficient activity processing system was critical to NEP's market credibility, client interest and OEG's preference for a “quick response” mechanism.

To be taken seriously by wholesale clients (most of whom were decisive and highly efficient themselves) NEP committed to go/no go decisions within 14 days of receiving an unsolicited proposal. On that basis, OEG and NEP devised the following activity assessment and processing system:

1. The client would send NEP a short request for assistance (one – two pages).
2. NEP would review the request and seek clarification from the client on a number of eligibility criteria.
3. The eligibility criteria were a) potential to improve the business environment; b) strong project ownership; c) strong project management capacity; d) client commitment of own investment funds to activity implementation and e) prospects for permanency/sustainability beyond the assistance period.
4. NEP would submit a one-page activity criteria selection (ACS) sheet to OEG for vetting of the proposed activity.
5. OEG would review the ACS, discuss its concerns with NEP and then approve/not approve the project activity.
6. NEP would then inform the prospective client of the go/no go decision.

7. NEP would develop a Work Order summarizing the scope of the project, the LOE, time frames, skills sets required and budget.
8. Both USAID and the client would sign off on the Work Order. The client would interview/select STTA personnel, where applicable.

According to the two separate evaluators (DAI and FMI), this system proved highly effective. Nevertheless, there were some activities that USAID deliberated on for much longer periods than the 14-day turnaround standard. Fortunately those were in the minority and, by statistical standards, acceptable exceptions to the 14-day rule.

#### 10.4 The NEP Management System

*An equally crucial aspect of successful demand-led work is a management system that is supportive of clients' implementation efforts without supplanting or taking over project ownership from them.*

At the start of the project, each long-term specialist was responsible for similar functions – marketing, packaging, technical assistance, monitoring etc. But this approach was sub-optimal because it exposed the weaknesses of each team member without allowing them to capitalize on their strengths.

In January 2001 Carana proposed a fundamental change in team dynamics to further enhance NEP effectiveness: The Chief of Party would be responsible for Marketing and overall project management while each long term specialist would become “case managers” – responsible for project packaging and specific oversight of their portfolios. To this end, NEP deployed four case managers to *facilitate* client implementation of approved activities in the following ways:

1. Help the client articulate Project Scope and Planning (Microsoft Project).
2. Identify potential short-term resources for the client to assess/select.
3. Mobilize the resources within an agreed Microsoft Project plan.
4. Monitor and provide periodic implementation advice to clients.
5. Ensure that clients are deploying committed personnel/capital to the activity.
6. Help clients to resolve key issues/bottlenecks that may occur.

There were two prerequisites that ensured the effectiveness of this system. The first is that structuring the project planning process so that clients took the lead and remained in control of management of overall implementation. The second is that Carana would have to bring highly specialized expertise to the STTA table.

The policy of insisting that clients take full responsibility for project management from inception is a departure from traditional TA methodology. In many cases contractors temporarily take over the project from the client – i.e. assuming responsibility for successful start-up, selecting TA and managing and implementing the activity on the client's behalf. But because we opted to work with successful wholesalers and because

we insisted on strong project ownership by our clients, *institutional strengthening never surfaced as a client or NEP issue over the four-year life of project.*

## 10.5 The OEG/NEP “One Team” Approach

A third success factor in the demand-led model – fusion of the OEG/NEP team – had mixed effects on implementation and client-contractor relationships over the LOP. Initially, a “united team” model was the cornerstone of a highly collaborative relationship fostered by USAID. OEG personnel participated in initial client meetings; prospective activities were processed quickly and were receptive to most of the operating changes proposed by Carana.

Nevertheless, the fact that USAID had final approval authority implied that both parties shift toward a more arms length relationship. The reason: NEP/OEG differences began to surface because NEP was gathering more detailed information on prospective activities than OEG. For instance, as the project gained momentum the singular team approach proved less effective since there were many meetings that OEG could not attend because OEG team members had other programs to manage (in addition to NEP). Over time, the unified arrangement – which served its purpose and worked so well at the start – became less than ideal for both parties.

In early 2002 OEG introduced a pre-clearing (ACS) system and opted out of day-to-day participation in NEP marketing and field operations. This terminated the unified proposal development and review system that was used in the early stages of project implementation. However, it had no adverse effects on OEG/NEP relationships.

## 11 Major Results and Impact

A summary of NEP’s activities and the major results and impact of this project are laid out in the following four sub-sections below:

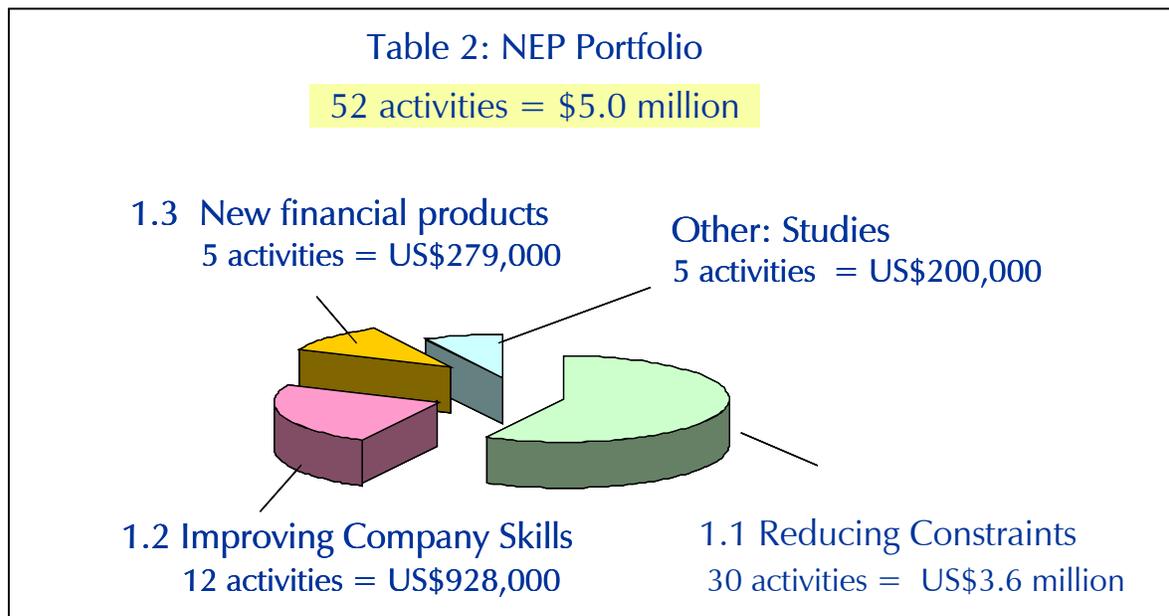
- Portfolio Summary
- Success Stories and Market Implications
- Problems Encountered
- Impact beyond NEP’s Existence

In contrast to the preceding sections (which focused on *how* a demand-led model works) this section highlights *what* the New Economy Project achieved and the longer-term prospects for further enhancements to new services aimed at improving Jamaica’s business environment beyond the current LOP.

### 11.1 Portfolio Summary

Developed over the first three years of the project’s four-year LOP, the New Economy Project’s portfolio was created by looking at over 150 potential activities and obtaining OEG approval of 52 of the 150 unsolicited proposals from private firms, private sector

organizations and public sector business facilitation agencies. The 52 activities include a limited number of studies (5), most of which were carried out in the first year of implementation. But the core of NEP portfolio is long-term guidance and short-term technical support to 42 private and public sector activities listed in Appendix I. Table 2, below shows NEP’s portfolio after all commitments to clients were finalized in early 2004.



IR 1.1 activities accounted for 60% of the portfolio and about 70% of its value while IR.1.2 activities represent approximately 25% of both effort and value.

Both IR1.1 and IR 1.2 were slow starters and – in the first year - OEG was considering eliminating the I.R 1.2 component of the project altogether.

A key indicator of the potential impact of NEP-funded activities is the estimated amount of funds invested (i.e. leveraged) by our private and public sector clients<sup>9</sup>. We estimate that they invested at least US\$5 million of their own funds to ensure successful development and role out of new products and services to the private sector. This is a positive barometer of client buy-in although we did not require that clients co-fund proposed activities as a precondition for NEP assistance.

However, the greater significance of leveraging is that it is an undisputable signal of the *permanence* and *potential sustainability* of most of the transformations that have occurred via this USAID program. As illustrated in sections 11.2 and 11.3 there were significant investments by our clients in all our Success Stories. Conversely, most front-loaded activities (i.e. activities where NEP assistance preceded client investments) lacked the momentum and achieved less success when compared with the leveraged ones. Some

<sup>9</sup> Co-funding was not a USAID prerequisite for NEP assistance to either private or public sector clients.

examples of front-loaded activities are presented in section 11.4 Problems Encountered, below.

## 11.2 Success Stories and Market Implications

In this report NEP success stories are grouped into four categories:

- Introduction of e-government (business facilitation) services
- Introduction and use of work flow management systems
- Business skills and productivity enhancements
- Increased financial services for SMEs

Details of the individual impact of each NEP funded activity are not presented here but are provided in supporting Appendices to this report (i.e. Appendix I, Activity Files and Appendix II, NEP Website Content.)

### Introduction of e-government (business facilitation) services

GOJ's introduction of e-services is a major NEP success story because it 1) speeds up transactions, 2) forces government agencies to establish and adhere to best practices, 3) provides "current status" information to clients<sup>10</sup>. These features improve transparency on both ends and allows users to make relevant decisions on a "just in time" basis.

The obvious benefit – that of instant access to information required to make a business decision – is difficult to quantify on a national scale. However, it forces all parties to improve the efficiency of their back office operations in order to consistently deliver high quality e-services to customers. This reduces transaction costs, creates certainty, and enhances overall productivity in both the public and private sectors. It is also noteworthy that Jamaica is the first CARICOM country to introduce e-services to the private sector. This will make Jamaica's transition into FTAA smoother and has encouraged other countries to begin the e-government process themselves.

Nevertheless, in terms of usage government e-services is in its infancy. One reason is that, apart from larger companies, the private sector is still in the process of changing their management habits from paper-based evidence to electronic ones. Another reason is that there are two legal constraints to local e-business. One is that GOJ's agencies like Customs and Tax Administration still need to obtain hard copy documentation because current legislation requires this<sup>11</sup>. The second legal constraint is that users cannot use local credit cards to make online payments. Government has indicated that it will pass the

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<sup>10</sup> NEP has provided STTA to Customs, Tax Authority, NLA and ORC. These projects involved the creation of e-services by agencies that would eventually allow clients to access/make payments online. NEP help GOJ develop and prepare and electronic transaction Bill that GOJ expects to pass into legislation in late 2004.

<sup>11</sup> NEP help GOJ develop and prepare and electronic transaction Bill that GOJ expects to pass into legislation in late 2004.

pending e-commerce legislation in late 2004. This will eliminate the legal requirement for hard copy documentation as well as facilitate usage of local credit cards. These two changes will make it much easier for e-business users and providers in Jamaica.

#### Introduction and use of workflow management systems

In a key area related to GOJ's introduction of e-services, NEP has helped three key public sector business facilitation agencies - Pesticides Control Authority (PCA), Anti-Dumping & Subsidies Commission and the Fair Trading Commission – introduce USAID-funded workflow management systems to improve tracking of submissions by clients.

The PCA is using its system to simplify the process of recording and accessing information on its clients' pesticide products and to reduce the time taken to register pesticide products.

Dr. Peter Figueroa, Chairman of the Board of Directors of the Authority, has described the PCA's Workflow Management System as a "powerful management tool".

Since the completion of the project, the PCA has changed its official processing time from 120 to 90 days but revealed that the processing is actually done within 60 days and continues to improve. This is directly attributable to the new workflow management software.

The improvements in the PCA's internal processes have also allowed for notable improvements in its ability to monitor manufacturers, distributors, farmers and other users of pesticides in Jamaica. A key example of this is the agency's move to mandate compliance with pesticide registration requiring all manufacturers and resellers of restricted pesticides to comply with the PCA's restriction programme to help limit access of unauthorized persons to hazardous chemicals and to more effectively manage the use of toxic pesticides in Jamaica.

Similarly, Anti-Dumping and Subsidies Commission's Case Management System will improve its ability to investigate alleged cases of Dumping, Subsidies and Safeguard actions. It is also anticipated that the Fair Trading Commission's Case and Workflow Management System will reduce the time taken to process complaints concerning breaches of the Fair Competition Act.

There are two reasons why we consider the trend by key agencies to use workflow management systems (WFMS) as an NEP success story. The first is that WFMS is an essential platform for real time interactive customer relations management (CRM). Put another way, WFMS allows business facilitation agencies to open up their process flow information to clients and forces these service providers to create efficient interfaces with other agencies and with the local and international private sectors. Moreover, this will improve Jamaica's trade information base since all three agencies are key trade monitors and regulators.

## Business Skills and Productivity Enhancements

Our IR 1.2 activities, initially off to a slow start, had considerable impact in terms of increasing SME access to business development services (BDS) and tools aimed at enhancing business management and productivity.

NEP has helped to facilitate the provision of private sector-led training to SMEs. Collaboration with BDO, IMP, JAMPRO/Jamaica Trade Point, New Horizons Computer Learning Centre, Jamaica Advanced Computer Systems, Worldwide Technologies, Manchester Chamber of Commerce and the Jamaica Manufacturers Association resulted in over 2030 persons from over 1230 SMEs being trained over the LOP.

Our assistance was aimed at improving the business skills and productivity of Jamaican enterprises by providing practical and relevant training programs and introducing new approaches to managing their businesses. Areas of training covered a wide range of IT business solutions, Project Management, Financial Management, Supervisory Management, Managing Payroll Systems, Marketing, Smart Selling, Dynamic Leadership, Starting and Operating a Business, and On-line Importing and Exporting courses. These initiatives have resulted in a key spin-off benefit for NEP-assisted training institutions, namely that they are now offering customized in-house training to private clients.

Improvements in productivity are also being marketed via innovative business services as well. For example, in March 2002 MCS launched BizPayCentral.com, Jamaica's first web-based business-to-business service. This resulted from a partnership with NEP to introduce an ASP payroll service aimed at SMMEs. The payroll service was slated to dramatically reduce the cost of acquiring a payroll solution for many small businesses by allowing them to run their payroll over the Internet, eliminating the need to acquire and maintain in-house payroll solutions. It also generates all the companies' statutory year-end reports.

MCS has been rewarded for its pioneering efforts by being selected as one of the top five of 900 entrants for the 2002 Microsoft Certified Partner Awards. BizPayCentral was selected as the **Best Small Business Solution for the Caribbean (2002)**.

MC Systems continues to make significant inroads into the business and public sector with this and other business offerings, several of which have been spin off benefits from the NEP project, particularly through knowledge and technology transfer. The company records as its big success the extension of BizPayCentral to provide a public sector payroll solution for the Government of Jamaica for which implementation is well advanced that will see most agencies in government using the system in the near future.

Since the launch, many businesses have been enthusiastic about the convenience of using the on-line service and this is expected to increase significantly with the recent move to transfer marketing and sales responsibility to its parent company, Jamaica National

Building Society. The company plans to rollout the product in the Caribbean in the near future.

An unrecognized “impact” of the IR 1.2 activities is the trend that these BDS service providers have established for offering a range of services to SME clients that were once restricted to medium sized and larger companies (See Section 11.3 Impact Beyond NEP Assistance below).

### Increased Financial Services for SMEs

Our success story under IR1.3 is the Jamaica National Small Business Loan Company’s (JNSBLC’s) activity<sup>12</sup>. In 2001 and 2002 the NEP provided the organization with the following advice:

1. Initial SWOT analysis and development of a strategic plan
2. MIS evaluation to determine suitability for business expansion
3. Evaluation of loan management policies, procedures and internal controls
4. Preparation of an operations manual
5. Selection and implementation of a loan management system
6. Development of an organizational structure to facilitate portfolio expansion
7. Review of salary/incentive schemes for management and staff

JNSBLC installed a new IT system to improve loan administration and has expanded its operations from two to fourteen parishes throughout Jamaica. In 2003, JN Small Business Loans Ltd. made five times as many loans as it did in 2000, prior to NEP’s assistance. The company has increased its first-loan access limit, the maximum loan amount and the corresponding repayment periods. Interest rate on loans remains at 1% per week. The firm is in the process of launching new financial services aimed at successful micro enterprises and established small businesses (see also section 11.3 Impact Beyond NEP’s Existence, below).

More importantly, JNSBLC has become one of the Caribbean’s leading micro enterprise lender. The firm’s strategy and operating systems are now viewed as one of the best models for successful introduction and management of micro credit programs throughout the Latin America and Caribbean (LAC) region.

### 11.3 Impact Beyond NEP’s existence

Feedback from many clients indicates that the benefits of activities aimed at improving Jamaica’s business environment will eventually coalesce as *major transformations* in the way business is done in the private and public sectors.

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<sup>12</sup> There were two other IR 1.3 activities that were supported by NEP: 1) Capital and Credit Merchant Bank’s program to market its financial products to SMEs and LETS Investments’ program to do the same thing in Western Jamaica.

One example of a continuing transformation is the introduction of the automated clearing house (ACH) facility, installed by JETS in 2003. This service reduced cheque clearance time in the banking system from 8 - 10 days to 3 – 5 days. JETS is now moving to the next phase of automation via introduction of an inter-bank direct debit facility - a new service that will allow debit/credit transactions to take place directly from the desks of businesses and without any service involvement by the financial intermediaries who sign up to this program. Such a system will reduce transaction time and costs, improve banking services and enhance business productivity. But it will also help the private sector to be more comfortable with paperless transactions and significantly expand Jamaica's e-business capabilities.

Another example is the financial sector's recognition of the micro enterprise sector as a legitimate target market for commercial financial services. This is the direct effect of JNSBLC's foray into that segment with NEP assistance less than four years ago. Launched in October 2000 with a portfolio of J\$34 million as Jamaica National's Micro Credit Company, JNSBLC has made over 37,500 loans valued at over J\$113.8 million to micro enterprises in urban as well as rural areas of Jamaica. The firm now employs 44 field officers and has Branch operations in 27 locations. Beyond its own impact, NSBLC's success has attracted competitors such as Scotiabank into that end of the market. The company is also graduating its micro enterprise borrowers into small business loan clients and introducing complementary financial products to them (e.g. mortgages for first homes, insurance and credit guarantees).

A third area of transformation is the increasing provision of business development services (BDS) to SMEs by larger private "for profit" providers. Under NEP, 10 BDS providers (eight of which were private) created new product lines specifically aimed at the SME sector. These services included a new associate degree program launched by MIND, customized SME training programs created by BDO, and the award winning on-line ASP payroll service launched by MCS. The significance of these initiatives is that Jamaica's private sector is taking its BDS down stream and is now treating the SME sector as a legitimate target market. These providers have indicated that they will continue to expand the range of products that they offer to the sector *without any further NEP/USAID assistance*.

Finally, the main feedback from our public sector clients is that NEP's assistance has jump-started GOJ's e-government initiatives. For instance, managers of seven key business facilitation agencies (NLA, Registrar of Companies, Customs Department, Tax Authority etc.), have pointed out that they will continue to refine and expand on the e-services that NEP helped them to initiate. Both NLA and ORC will introduce online payment systems for clients while Customs and Tax are going to expand on pilot projects that NEP has supported as introductory tests for similar island-wide services.

Overall therefore the underlying impact of activities supported by NEP will extend well beyond the life of project – resulting in substantial transformations in services; in productivity; and the way business information is obtained and managed in the future.

## 11.4 Problems Encountered

NEP's approach elicited strong demand for assistance from the business community and from key GOJ business facilitation agencies. However, the project also experienced its share of implementation difficulties. We encountered three groups of problems that affected 10 activities. These problems were 1) STTA sequencing; 2) weak client ownership; and 3) budgetary constraints on funding larger high impact activities.

In the case of STTA sequencing, we experienced follow-on difficulties with front-loaded projects, especially where NEP assistance was a precursor to clients' go/no go decisions on investing their own resources in business transformation projects.

Of our 52 activities there were four projects where this happened: Paymaster, Jamaica Central Securities Depository (JCSD), and to a lesser degree, Capital and Credit Merchant Bank, and Lets Investments. For example, in Paymaster's case, we laid out the IT framework for procurement of an IT solution aimed at integrating the firm's bills payments front end with its back office operations. However, following considerable NEP advice on the RFP, Paymaster opted to defer procurement for legal reasons. Therefore the impact of the project – making it easier for SMEs and micro entrepreneurs to use bill payment services – was not realized during NEP's LOP.

We had the same experience with JCSD and Lets where NEP assistance was of a similar nature. Both clients deferred decisions to purchase software solutions despite assurances (given NEP) to the contrary<sup>13</sup>. Overall, however, front-loaded activities accounted for about 10% of our portfolio and NEP terminated support for such programs in early 2003. Also, all of these clients have indicated that they intend to proceed with NEP recommendations and, since then, two – Paymaster and Lets Investments – have done so.

Deriving success for our work with five private sector organization (PSO) activities was difficult. The projects included the Briefing Room and the Legislation, Regulation and Process Improvement (Legs and Regs) Project (now both run by the Jamaica Chamber of Commerce (JCC)); the Small Business Association study; and assistance committed to a Jamaica Manufacturers Association (JMA) training project.

Although the JCC activities strengthened private-public sector relations, we expressed our concern about the lack of adequate oversight to OEG. We also suggested that such be rectified as a prerequisite for continued USAID support for those programs. In the case of the SBA, there was limited enthusiasm by SBA's Board to follow-through on recommendations; hence this assignment had no effect on the organization's prospects. The JMA also lost interest in a training program that the organization appeared to be keen on initially, resulting in assistance being terminated by NEP in June 2004<sup>14</sup>.

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<sup>13</sup> All four activities were being implemented simultaneously. After experiencing four cases of it in 2002, NEP recommended to OEG that NEP avoid such proposals/activities in the future.

<sup>14</sup> 12 JMA participants from six companies were eventually included in an IMP training program. 37 persons were trained but this was insignificant compared with the JMA target of 150 participants.

Finally, one continuous challenge was STTA resource allocation. Because there was such strong demand for assistance, NEP and OEG had to vet the STTA funding levels for each approved activity. Consequently, although there were no preset limits, our commitments fell into a \$50,000 - \$200,000 range. The reasons: we wanted to optimize STTA usage and to ensure that there was broad access to assistance within each of the IRs.

This strategy worked well but limited the support that we could commit to larger “higher impact” activities such as National Land Agency’s e-land program; Shipping Association’s ASP port community service; and the countrywide Customs e-payment service. Funding estimates for STTA to these projects each exceeded \$500,000 and would have severely limited NEP capacity to support other activities. We therefore opted to support only the initial phases of implementation of these programs. Those clients expressed concerns about this limitation and are still interested in securing (future) USAID funding to complete their transformation processes.

## 12 Lessons Learned

The main lessons learned from NEP’s demand-led experience are as follows:

- To be effective, programs aimed at macro changes (e.g. improving the business environment, liberalization of the ICT sector etc.) must be positioned to respond to market trends and private and public sector initiatives. Such programs *unfold* and therefore require considerable donor flexibility and adaptability in terms of focus, expected results, and STTA mix (personnel, commodities etc.).
- Demand-led strategies require upfront commitments to modify elements of the project’s original design where required. Examples include introducing new intermediate results or adopting a rolling work plan approach where only some planned activities can be articulated at the start of each period. It could also lead to adjustments to the long-term resident team to reflect market requirements.
- Leveraging, client commitment and (the potential for) broad-based impact are three interlinked prerequisites for successful demand-led programs. Such programs should work with competent clients who own their projects rather than be confined to helping a particular group of targeted beneficiaries (e.g. SMEs).
- Responding and supporting real opportunities is likely to have far greater overall impact than focusing on sector specific (e.g. tourism) or concept driven strategies (e.g. cluster competitiveness). When intermediate results are set as performance targets, supporting momentum is a far more effective strategy than creating it.
- Institutional strengthening should not be a key feature of demand-led programs because achieving real impact within 1- 4 year contractual time frames dictates that clients possess adequate implementation capacity *before* assistance is proffered to them.

- Front-loaded activities, where clients ask for assistance before investing any of their own resources (whether people or investment funds) are speculative and fail to produce expected results. These types of activities often break most if not all of the tenets of effective demand led programs (client ownership, implementation capacity already in place etc).
- Considerable collaboration between USAID’s activity team and the contractor is essential in the early phases of implementation given that demand-led projects will inevitably require modifications to the long term team; to IRs; and to some project management processes.

### **13 Recommendations on Follow Up Actions**

Carana’s recommendations for USAID follow up action are twofold.

First, it might be useful for USAID to continue monitoring the continuing implementation of a selected number of NEP subprojects. These are major efforts that could not be completed under NEP supervision. These include:

- Customs’ Phase II e-services\*;
- Tax Administration’s Third Party Collection\*;
- National Lands Agency e-payment system Phase III\*;
- Office of the Registrar of Companies e-payment system Phase II\*;
- Jamaica Shipping Association port community services Phase III;
- Jamaica Central Securities Depository IT Solutions Phase II; and,
- Jamaica Bankers Association’s Credit Bureau Project, Phase II<sup>15</sup>.

A number of these subprojects (marked with \*) are on track for implementation using IDB loan funds<sup>16</sup>. Nonetheless, it might be fruitful for USAID to monitor next phases of the process. We are sure the agencies involved want to complete these subprojects through their final phases and USAID’s expression of continued interest may be all that is required to complete these activities.

Second, we suggest that USAID leverage the NEP demand-led model in its next Strategy Period (2005 –2010). As this report confirms, the model has proved to be highly effective in identifying and responding to development priorities as established by both the public and private sectors in Jamaica. As evidenced by NEP client testimonials in Appendix V, client satisfaction and endorsement of the process has created an “open door” environment for continued USAID support - along similar lines – into the foreseeable future.

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<sup>15</sup> Information on these projects can be obtained from NEP’s activity files, transferred to USAID as part of Carana’s close out (contract) obligations.

<sup>16</sup> USAID funding through NEP leveraged the IDB ICT project, which succeeds NEP as the principal stimulant for e-Government solutions.