PD-KAE-850

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

cc: Mr Vegega
Mr Jucomley
Mr Afflerbite
Mr Bzer

ASSISTANT
ADMINISTRATOR

MAY - 4 1982

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U. N. D. P.
REGISTRY

MAY 13 1982

Mr. Benn
RLA/81/010

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Mr. Carlos Vegega
Assistant Administrator and
Regional Director for Latin America
United Nations Development Programme
One United Nations Plaza
New York, New York 10017

Dear Mr. Vegega:

1. I have the honor to refer your letter dated May 11, 1981, relating to the Caribbean Project Development Facility which is being implemented as a UNDP project.

2. I am pleased to inform you that, pursuant to the authority contained in the Foreign Assistance Act of 1961, as amended, the Government of the United States of America, acting through the Agency for International Development (hereinafter referred to as "A.I.D."), hereby grants to the United Nations Development Programme (hereinafter referred to as the "UNDP" or the "Grantee") the sum of One Million United States Dollars ($1,000,000), to be used for support for the Caribbean Project Development Facility project jointly funded by UNDP, Inter-American Development Bank, Caribbean Development Bank, A.I.D., and the Government of the Netherlands and which is being executed by the World Bank/IFC, as is more fully described in Attachment A.

3. This grant is effective as of the date of this letter and is applicable to commitments made by the Grantee in support of the program from the date of this letter through September 30, 1984. Funds disbursed by A.I.D. but uncommitted by the Grantee at the expiration of this period shall be refunded to A.I.D.

4. It is understood that financial records, including documentation to support entries on accounting records and to substantiate charges against the grant shall be maintained in accordance with the Grantee's usual accounting procedures, which shall follow generally accepted accounting practices. All such financial records shall be maintained for at least three years after final disbursement of funds under this grant.

5. The Grantee agrees to furnish to A.I.D. its financial statements on this project, any comments contained in the Report or the Opinion of the Board of Auditors of the United Nations (as and when received), and

such information on the status and execution of the project as may reasonably be requested by A.I.D.

6. The parties agree that this grant and the activities financed therewith shall be managed by the Grantee in accordance with its established policies and procedures.

7. The Grantee has assured A.I.D. that the grant funds will be used by the Grantee as they are in fact required to finance expenditures for this project. Accordingly, A.I.D. has agreed to establish a single irrevocable Letter of Credit which the Grantee can draw down from time to time, in amounts as and when actually required, to finance the expenditures of this project. The grantee agrees to draw down these funds on a pro rata basis with funds contributed by other donors for the Caribbean Project Development Facility. The A.I.D. funds may be used only for the purposes of the grant in an amount not to exceed $1,000,000, provided, however, that the Grantee agrees that it will not draw down funds in excess of $500,000 until A.I.D. has approved in writing an evaluation prepared by the Grantee of the performance of the Caribbean Project Development Facility to that date, such evaluation to be more fully described in Article VI of Attachment A hereto. Any amount of this grant which has not been expended at the conclusion of the project shall be returned to A.I.D., together with any interest which may have been earned on the grant, unless A.I.D. shall otherwise agree in writing.

8. The Grantee shall prepare and submit to A.I.D. at least one copy of a report in accordance with Article V of Attachment A.

9. This agreement, in whole or in part, may be terminated by either party at any time upon 30 days written notice. This agreement may be revised only by written mutual consent of the parties thereto.

10. Please indicate your acceptance of this grant by signing the original and eight (8) copies of this letter in the space provided below and return the original and six copies to:

Mr. Irwin A. Levy, Acting
Associate Assistant Administrator
for Development Resources
Bureau for Latin America
and the Caribbean
International Development Cooperation Agency
Agency for International Development
Washington, D. C. 20523

Two copies may be retained for your files.

THE UNITED STATES OF AMERICA

BY: Otto J Reich

TITLE: A.I.D. Assistant Administrator
Bureau for Latin America
and the Caribbean

DATE: May 3, 1982

ACCEPTED:

UNDP

BY : M. D. Stafford

TITLE: Director of Finance

DATE : 21 June 1982

THE UNITED STATES OF AMERICA

BY: [signature]

TITLE: A.I.D. Assistant Administrator
Bureau for Latin America
and the Caribbean

DATE: May 3, 1982

ACCEPTED:

UNDP

BY : [signature]
M.D. STAFFORD

TITLE: DIRECTOR OF FINANCE

DATE : 21 June 1982

FISCAL DATA:

Appropriation: 72-1121037

Budget Allowance: LESA-82-25538-KG12
(237-52-538-00-69-21)

ATTACHMENT A

PROGRAM DESCRIPTION

ARTICLE I - Program Purpose

The purpose of this grant is to help speed development of productive enterprises, both public and private in the seventeen Caribbean States which participate in the Caribbean Group for Co-operation in Economic Development (CGCED) as a means of generating employment; improving balance of payments through expanded exports of goods and services and bringing about self-sustained growth and development through the creation of medium-sized and smaller enterprises and the strengthening of enterpreneurial traditions in the region.

ARTICLE II - Program Description

UNDP/IBRD/IFC with the co-operation of CDB, IDB and CARICOM will establish a Caribbean Project Development Facility (CPDF) as a mechanism to assist Caribbean governments to identify, promote and develop suitable private and public sector projects to be submitted for financing by existing financial institutions.

ARTICLE III - Period of Grant

The period of this grant shall be through September 30, 1984.

ARTICLE IV - Project Number

Project - 538-0060

ARTICLE V - Reports

No later than 13 months after the effective date of this grant, the Grantee shall submit a report to LAC/DR confirming that costs claimed under the grant have been expended in conformity with the grant. A similar report shall be submitted at the end of the grant period.

ARTICLE VI - Evaluation

Prior to drawing down funds under the Letter of Credit in excess of $500,000, the Grantee shall submit an evaluation of the CPDF. The evaluation should examine the actual performance of CPDF against its objectives, particularly in terms of progress in identifying, developing and banking specific project investment proposals.

ARTICLE VII - Use of Funds

The funds expended under ths grant shall not exceed $1,000,000 obligated under it.

THE UNITED STATES OF AMERICA

BY: ______________________

TITLE: A.I.D. Assistant Administrator
Bureau for Latin America
and the Caribbean

DATE: MAY - 3 ______________________

ACCEPTED:

UNDP

BY : ______________________

TITLE: ______________________

DATE : ______________________

Drafter:LAC/DR:JPBittner/LAC/GC:GWinter:Ext:22302:04/23/82

Clearances:

LAC/CAR:SMerrill (In Draft)	LAC/DP:DBroome (In Draft)
LAC/CONT:AHulliung (In Draft)	LAC/DR:CLeonard ______
GC/LAC:BVeret ______	DAA/LAC:MDBrown ______

FISCAL DATA:

Appropriation: 72-1121037

Budget Allowance: LESA-82-25538-KG12
(237-52-538-00-69-21)

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File Carib 3107 Dev Facility — IFC Unit

UNITED NATIONS
DEVELOPMENT PROGRAMME

PROGRAMME DES NATIONS UNIES
POUR LE DEVELOPPEMENT

ONE UNITED NATIONS PLAZA
NEW YORK, N.Y. 10017

TELEPHONE: 754-1234

CABLE ADDRESS: UNDEVPRO • NEW YORK

REFERENCE: RLA/81/010

DEC 29 1981

Dear Mr. Bittner,

Caribbean Project Development Facility (RLA/81/010)

Further to the letter dated 2 June, 1981 from Mr. Edward McCoy, Acting Assistant Administrator, Bureau for Latin America and the Caribbean to Mr. G. Arthur Brown, Deputy Administrator of UNDP and to the follow-up telephone conversations between yourself and Denis Benn on the above-mentioned subject, I am pleased to forward herewith a draft agreement governing the proposed USAID contribution to the above-mentioned project. As will be seen, the draft agreement is patterned after the USAID/UNDP agreement in respect of the Critical Poverty Project in Central America (RLA/77/018).

If the agreement is acceptable I would appreciate if you would return fair copies to Mr. Carlos Vegega, Assistant Administrator and Regional Director for Latin America, UNDP for signature.

However, in conjunction with the agreement, we would seek assurance from the World Bank/IFC, the executing agency, that it will initiate a separate request for funds, which will trigger a draw down of the letters of credit, indicating an immediate disbursement need. This arrangement is necessary in order to avoid any question of interest earnings on the USAID contribution.

Mr. Peter Bittner
c/o Agency for International Development
LAC/DR Room 2252
Department of State
Washington D.C. 20523

RECORD COPY

UNITED NATIONS
DEVELOPMENT PROGRAMME

PROGRAMME DES NATIONS UNIES
POUR LE DEVELOPPEMENT

I should mention that so far we have received commitments for contributions to the project totalling $2,595,000, as indicated hereunder:

IDB	$1,000,000
USAID	500,000
Canada	640,000
CDB	100,000
Netherlands	100,000
UNDP	255,000
	$2,595,000

Since the total project is expected to cost approximately $4.5 million over a three-year period we would appreciate if you would give consideration to a possible increase in your contribution in order to ensure that the target is reached. We will of course be making similar requests to other donors.

I am sure you will agree that the project represents an important initiative in seeking to ensure a more effective contribution of the private sector in Caribbean development and as such deserves support.

I look forward to an early reply.

Yours sincerely,

Best wishes for the new year

Michael Gucovsky

Michael Gucovsky
Director for Regional Projects and
the English-Speaking Caribbean Countries

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DRAFT

DEPARTMENT OF STATE

Dear Mr. Vegega,

1. I have the honour to refer to the request of the United Nations Development Programme, dated 11 May, 1981 relating to the Caribbean Project Development Facility which is being implemented as a UNDP project.

2. I am pleased to inform you that, pursuant to the authority contained in the Foreign Assistance Act of 1961, as amended, the Government of the United States of America, acting through the Agency for International Development (hereinafter referred to as "AID"), hereby grants to the United Nations Development Programme (hereinafter referred to as the "UNDP" or the "Grantee") the sum of five hundred thousand United States dollars ($500,000), to be used for support for the Caribbean Project Development Facility project jointly funded by UNDP, IDB, CDB, USAID, and the Government of the Netherlands and which is being executed by the World Bank/IFC, as is more fully described in Attachment A.

3. This grant is effective as of the date of this letter and is applicable to commitments made by the Grantee in support of the programme during the period October 1, 1981 through September 30, 1982. Funds disbursed by AID but uncommitted by the Grantee at the expiration of this period shall be refunded to AID.

4. It is understood that financial records, including documentation to support entries on accounting records and to substantiate charges against the grant shall be maintained in accordance with the Grantee's usual accounting procedures, which shall follow generally accepted accounting practices. All such financial records shall be maintained for at least three years after final disbursement of funds under this grant.

5. The Grantee agrees to furnish to AID its financial statements on this project, any comments contained in the Report or the Opinion of the Board of Auditors of the United Nations (as and when received), and such information on the status and execution of the project as may reasonably be requested by AID.

6. The parties agree that this grant and the activities financed therewith shall be managed by the Grantee in accordance with its established policies and procedures.

7. The Grantee has assured AID that the grant funds will be used by the Grantee as they are in fact required to finance expenditures for this project. Accordingly, AID has agreed to make advance disbursements of the $500,000 pursuant to a single irrevocable Letter of Credit which the Grantee can draw down from time to time, in amounts as and when actually required, to finance the expenditures of this project. These funds may be used only for the purposes of the grant in an amount not to exceed 10

$500,000. Any amount of this grant which has not been expended at the conclusion of the project shall be returned to AID, together with any interest which may have been earned on these funds, unless AID shall otherwise agree in writing.

8. The Grantee shall prepare and submit to AID at least one copy of a report in accordance with Attachment A.

9. This agreement, in whole or in part, may be terminated by either party at any time upon 30 days written notice. This agreement may be revised only by written mutual consent of the parties thereto.

10. Please indicate your acceptance of this grant by signing the original and eight (8) copies of this letter in the space provided below and return the original and six copies to:

Mr. Peter Bittner
Office of Development Planning
Bureau for Latin America and the Caribbean

Two copies may be retained for your files.

11. The AID Technical Office responsible for monitoring this grant is LAC/DR.

THE UNITED STATES OF AMERICA

BY:________________________

TITLE: A.I.D. Assistant Administrator
Bureau for Latin America and
The Caribbean

DATE:________________________

Attachment: Programme Description

PROGRAMME DESCRIPTION

ARTICLE I - Programme Purpose

The purpose of this grant is to help speed development of productive enterprises, both public and private ,in the seventeen Caribbean States which participate in the Caribbean Group for Co-operation in Economic Development (CGCED) as a means of generating employment; improving balance of payments through expanded exports of goods and services and bringing about self-sustained growth and development through the creation of medium-sized and smaller enterprises and the strengthening of entrepreneurial traditions in the region.

ARTICLE II - Programme Description

UNDP/IBRD/IFC with the co-operation of CDB, IDB and CARICOM will establish a Caribbean Project Development Facility as a mechanism to assist Caribbean governments to identify, promote and develop suitable private and public sector projects to be submitted for financing by existing financial institutions.

ARTICLE III - Period of Grant

The period of this grant shall be for one year.

ARTICLE IV - Accounting and Appropriation Data

Project -
Allotment -
Appropriation -

ARTICLE V - Reports

No later than 13 months after the effective date of this grant, the Grantee shall submit a report to LAC/DR confirming that costs claimed under the grant have been expended in conformity with the grant. A similar report shall be submitted at the end of the grant period.

ARTICLE VI - Use of Funds

The funds expended under this grant shall not exceed $500,000 obligated under it.

AGENDA FOR DISCUSSION OF CARIBBEAN INVESTMENT
CORPORATION CONCEPT PAPER

An important element of the RDO/C development strategy in the English-speaking Caribbean is to increase employment and output in the private sector. The Mission believes that in order to achieve this objective, one must address, inter alia, the constraint to expanding the financing of productive enterprises in the region. The concept paper outlines the Mission's approach for accomplishing that end. Basically, the Mission proposes to:

1. Establish a viable regional financial institution through the revitalization of the Caribbean Investment Corporation (CIC) to provide a wide range of financial services to private sector borrowers.

2. Provide and/or coordinate provision of services to clients of CIC in areas such as project identification and marketing.

3. Undertake experimental programs to enhance the management capability of private sector manufacturers.

4. Capitalize a fund for micro-business lending in selected countries of the Eastern Caribbean.

Funding requirements for the project are estimated at $19.5 million AID and $4.5 million CIC. A loan of approximately $14 million would be used for on-lending by the CIC. A grant of $5.5 million is also requested of which $2.0 million would enable CIC to make equity investments in the LDCs, $1.5 million would support the institutional development of CIC and its clients, and $2.0 would establish a microbusiness fund within CIC and provide a technical advisor to manage its operations.

The following agenda is suggested:

1. Project Design

   A. Appropriateness of Components. The project is composed of an Investment, TA and Support Services, Management Assistance Program and Micro-Business Fund Component. How critical are these components to a successful project? Specifically, do the Management Assistance and Micro-Business Fund activities divert attention from the major purpose of revitalizing CIC?

   B. Micro-Business Fund. This $2.0 million fund would provide grant funds to viable DFCs and private commercial banks to enable them to make sub-loans to micro-business in the

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LDCs. Should grant funds be given to commercial banking institutions? Is the size of the fund appropriate?

C. Alternative to CIC. Are there viable alternatives to working with the CIC e.g., utilizing the existing commercial banking network or an American bank with experience in the area to channel the funds? What are the pros and cons of these alternatives?

2. Financial Concerns

A. Terms. The concept paper suggests a $14.0 million loan, at a minimum 20 year repayment period with 10 year grace at 4 percent interest, a debt/equity ratio of 4/1, and a new private sector equity investment of approximately $2.0 million. Are the loan and grant levels appropriate? Are the loan terms appropriate? Is the D/E ratio acceptable?

B. AID Loan Guarantee. No guarantee of the AID loan is indicated. Can or should a guarantee be obtained? If not, should a sinking fund account, like that for the BANEX loan in Costa Rica, be required?

3. Coordination

A. IFC Promotion Unit. The concept paper indicates that the new IFC unit will make a special effort on the LDCs. However, recent discussions suggest otherwise. What measures should be taken to initiate collaboration with the unit in order to best utilize its capabilities?

B. CDB. The bank is implementing several projects involving the business community in the Caribbean region. How will coordination of effort between the CIC and bank be maintained?

4. Jamaican Involvement and Investment Potential. What is the likelihood of Jamaican investment in the CIC? What is the anticipated market in Jamaica for CIC investments?

5. U.S. Representation on CIC Board of Directors. Is U.S. representation on the Board, either voting or non-voting, necessary of desirable?

6. Timeframe for Restructuring CIC. The process of restructuring the CIC is likely to be time consuming. It is probable that a loan agreement could not be signed before the Spring of 1982. It would then take 3-6 months to staff CIC, develop operating procedures, meet CPs, etc. Can this time table be accelerated?

Drafter:LAC/DR:LTArmstrong/JPBittner:bat:09/28/81:29162

Clearances
LAC/DR:CLeonard
LAC/DR:ILevy

REGIONAL DEVELOPMENT OFFICE/CARIBBEAN

CARIBBEAN INVESTMENT CORPORATION

CONCEPT PAPER

SEPTEMBER 14, 1981

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I. MACROECONOMIC SETTING

A. Economic Structure of the English-Speaking Caribbean

The small island economies of the English-speaking Caribbean have traditionally suffered from poor resource endowments, small market size leading to dis-economies of scale in production, and economic fragmentation resulting in high transport and communications costs and very high per capita infrastructure costs. These countries have in addition relied on single crop exports, like bananas and sugar, and tourism, making them extremely vulnerable to small changes in external economic variables. Emigration has been another regional tradition, although recent policy changes in recipient countries are decreasing the numbers of people who leave each year.

The region has a strong democratic tradition and its population is generally quite literate. In addition, historical ties, tourism and proximity to Western countries have resulted in widespread knowledge of and desire for the cultural and economic life styles characteristic of the U.S., U.K., and Canada. The demand for consumer goods and social services is thus very high, placing pressure on public sector revenues and foreign exchange earnings from tourism and exports. Tourism, unfortunately, is a highly foreign exchange - intensive industry, which serves to further exacerbate this pressure. Social services are at high levels, and governments must be publicly committed to further increases.

While the physical resource base is not extensive, the human resource base is becoming similarly dysfunctional. Emigration, both intra and extra-regional, has robbed countries, particularly the LDC's, of managerial, entrepreneurial, and skilled labor. Traditional education systems have not prepared youth for realistic work opportunities. In come countries, like St. Lucia, well over 50% of the population is less than 25 years old, and of this group, half is unemployed.

B. Prospects for Growth and Development

The economic performance of the countries of the Eastern Caribbean has been less than satisfactory over the last 10 years. The shock of rising oil prices has had a severe impact on these import-oriented economies. Export performance, strong in the early 1970's, has weakened due to a softening in world market prices, managerial problems, and three natural disasters which destroyed substantial segments of national agricultural export sector. More recently tourism has declined due to the ongoing recession in the developed countries, and airline price increases.

Generally economic growth fell in 1979 and stagnated further in 1980. Infrastructure elements like roads and port facilities are beginning to deteriorate. Unemployment rates now average 20-30% and reached 50% in the politically volatile 15-25 age group. In addition, substantial levels of underemployment prevail throughout the region.

Public finances are weak, and populations continue to demand high levels of services. Foreign exchange shortages have led to suboptimal usage of agricultural inputs like fertilizers and insecticides, further worsening export performance.

The recent strengthening of the U.S. dollar has caused additional problems for the Caribbean. Countries that export to the U.K. are paid in pounds sterling, for example, but most currencies are tied to the U.S. dollar. This has had a particularly severe impact on Dominica which exports bananas to the U.K. Tourism, heavily reliant on the British and Europeans, is under similar pressure.

As tourism has declined so has the construction industry. Even Barbados, where larger size and higher levels of managerial skills have in the past produced positive rates of economic growth, is experiencing a softing in economic performance and the consequent threat to standards of living.

Current account deficits have worsened to more than 40% of GDP in Dominica, St. Lucia and St. Vincent. Further, Dominican public sector savings as a proportion of GDP fell to -10% last year. Inflation rose sharply, to at least 14% in Barbados and 29% in Montserrat. Other states, particularly the LDC's, are suffering similarly.

Different countries are stressing different sectors to regain a positive development momentum. Dominica is focusing on agricultural diversification and modernization away from subsistence farming. St. Vincent is focusing on agricultural diversification and attracting foreign investment in light industry. In Barbados ligh industry, construction and tourism are major targets of development policy. Montserrat is specializing in retiree tourism and is also attempting to increase production of sea island cotton. Antigua is further developing its tourist industry, and St. Kitts/ Nevis is focusing on light industry, like electronic component assembly and garments.

C. Role of the Private Sector

To reverse the downward trend of the region's economy, sustainable increases in employment and production must be acheived. Since the productive sector is predominately in the hands of the private sector and productive employment can most effectively be created by the private ownership of the means of production, the Caribbean private sector has a key role to play in promoting increased economic growth.

There is a general consensus that prospects for private sector growth in the region are positive, particularly in export-oriented growth. A successful program of expanding productive private sector investment will increase employment and overall economic production as well as increase tax revenues which in turn will permit governments to maintain adequate levels of infrastructure investment and social services.

In addition to growth potential, the climate for increasing private sector investment is promising. With limited exception, the political environment in the English-speaking Caribbean has become very positive and Caribbean political leaders are looking to the private sector as a principal source of economic expansion.

The Caribbean private sector must be able to respond to the new opportunity which confronts it. This will require the private sector to move away from its trading company/distributive sector image and pursue higher-risk ventures in manufacturing and export. While U.S. firms can play a role in stimulating private sector expansion in the Caribbean, the Caribbean private sector itself must commit its own financial resources, organizational ability, and management skills to the growth of the region.

It is in our interest to facilitate the creation of Caribbean private sector institutions through which goals can be established, resources mobilized, and views expressed.

Against a backdrop of growing unemployment and dissatisfaction, a developing private sector would result in a strengthening of economic and social pluralism so that political power and participation, as well as economic gains, would be equitably shared between a number of groups with vested interest in open economies and democratic forms of government. Private sector development is therefore the region's best hope for avoiding authoritarianism and moving towards a higher standard of living.

II. PROJECT STRATEGY AND RATIONALE

A. Mission Strategy To Increase Employment and Production

Confronted with the difficult and complex development problems facing the English-speaking Caribbean, the overall strategy of the Mission's program is to increase employment and output in the productive sector. Excluding mining, petroleum, and natural gas exploitation, private sector ownership predominates this sector. The focus of our strategy is thus to promote the expansion of production and employment in the private sector.

This approach is fully consistant with and supportive of the Agency's overall emphasis on the role of the private sector in economic development and with the Administration's Caribbean Basin Initiative. Within the broad policy framework which is evolving in collaboration with the countries of the region, the Mission is seeking to define and implement an array of projects, which will facilitate and make more affective the critical "non-aid" aspects of the Caribbean Basin Initiative. These include increasing our trade relationships with the region and establishing linkages which will stimulate the flow of U.S. private sector investment into the region, particularly the Eastern Caribbean.

1. Private Sector Development Constraints

A number of obstacles must be overcome if the potential contribution of the private sector to the development of the region is to be fully realized. These, as identified by the Caribbean Group for Cooperation in Economic Development - sponsored Private Sector Task Force, include (1) limitations of existing financial institutions; (2) uncertain investment climate; (3) human resource constraints and (4) trade and factor mobility problems.

The Caribbean region is relatively well endowed with financial institutions which serve the private sector. As discussed in more detail below, however, these institutions are not fully responsive to the needs of the private sector and non-financial factors beyond the sphere of usual financial institutions further constrain resource flow to the productive sector.

The investment climate is a complex combination of subjective "confidence" factors and objectives "incentive" factors. Although some countries in recent years have enthusiastically courted investors, uncertainties about government policy and particularly about the future of the private sector in several countries, have reduced private sector confidence (and therefore investment) in the region as a whole. In addition, government incentives to stimulate investment such as fiscal concessions and subsidies are many and extremely varied throughout the region and often are off-set by other tax, legal, regulatory and administrative provisions. The investment climate resulting from inconsistent government policy and incentives is not conducive to private sector growth.

In terms of human resources constraints, the Private Sector Task Force report states that a shortage of entrepreneurial talent and managerial skilled labor is one of the major if not the single most important obstacle to private sector development. The Task Force called for a major regional effort to upgrade management and technical training institutions at all levels. A critical need also was identified for more direct contact between skills training programs and the business world.

Constraints on trade, payment and factor mobility continue to require far sighted regional leadership. The Private Sector Task Force noted that up to the present no region-wide understandings have been reached with CARICOM to facilitate the mobilization of labor, capital and entrepreneurship. A recent step in this direction was CARICOM's appointment of a high level group to examine opportunities for closer economic integration within the CARICOM region, including the aforementioned issues. Finally, stronger ties between national private sector organizations are essential to foster a stronger voice for the business community in regional issues.

2. Mission Response

Given the above constraints inhibiting the growth of the productive private sector, and the broad strategy of working through that sector to stimualte employment and expand output, the Mission is developing a multi-faceted, multi-year program which will:

(a) seek the commitment of and mobilize the resources of the Caribbean private sector which, together with AID and other donor assistance, can be applied to address key sector development constraints;

(b) create or expand opportunities to involve the U.S. private sector with its Caribbean counterpart to stimulate increased investment, enlarge markets, and facilitate the transfer of managerial and technical skills;

(c) enhance the utilization of resources available for private sector development under existing programs;

(d) undertake such regional or country specific initiatives which will support private sector growth;

(e) seek private sector mechanisms to implement programs addressing regional development problems; and

(f) encourage and facilitate coordination of other donor involvement in regional private sector development.

Within this strategy, our initial priority has been to develop the Caribbean Association of Industry and Commerce (CAIC) as the regional representative of the Caribbean private sector. A pilot grant of $400,000 made to CAIC in May, 1980 is an effort to enhance the capacity of CAIC to stimulate investment and productive employment in the English-speaking Caribbean.

Five major program activities will be initiated by CAIC under the grant: business-government relations; organizational affairs; economic development; research and data collection; and training. If the pilot grant is successful in establishing CAIC's effectiveness in carrying out these activities and in mobilizing Caribbean private sector resources to support this effort, an expanded grant program will be developed.

In addition to the CAIC initiative, the Mission is working in areas related to human resource development (the on-going CARICOM Regional Training Project and a proposed non-formal skills training program in collaboration with the OAS), restructuring on-going programs with the Caribbean Development Bank, and assessing new projects in regional trade and inter-island shipping using the private sector as the vehicle for project implementation. AID-supported projects which relate to the project proposed herein are discussed in detail under Section IV below.

Based on our assessment of the relative priority of the development constraints facing the private sector and the regional private sector's readiness to support specific new project undertakings, the second major program implementing the Mission's employment and production strategy is to address the constraints to expanding the financing of productive enterprises in the English-speaking Caribbean.

B. Constraints Facing Expanded Financing of Private Sector Productive Activities

1. Overview of the Financial Sector in the English-speaking Caribbean

(a) Eastern Caribbean LDCs and Belize

Financing the private sector in the LDC's is done primarily by local branches of foreign-owned commercial banks. Barclays Bank and the Royal Bank of Canada operate in all of the LDC's with 25 branches and 15 branches respectively. The Bank of Nova Scotia and the Canadian Imperial Bank of Commerce have branches in some of the LDC's. Banque Antillaise, a Martinique bank, has an office in Dominica and the Atlantic Bank based in Honduras operates one office in Belize. In addition to these, all of the LDC's except Montserrat have at least one locally or government owned commercial bank.

The total outstanding loan portfolio of commercial banks in the LDC's in March, 1981 was approximately US$350 million in credit of which $75-95 million is to the productive sectors (agriculture, manufacturing, and tourism). Between 50% and 60% of all outstanding loans is for a period of time of less than one year. Belize has the largest portion of commercial bank loans to the productive sector with approximately $30-50 million presently outstanding. The loan-to-deposit ratio for Belize commercial banks is also very high (100%) indicating a very tight liquidity position where demand is out-stripping available supply. For the remaining LDC's the average loan-to-deposit ratio is 77%; only St. Lucia with a ratio of 94% appears to have a relatively illiquid commercial banking system.

Rates paid by commercial banks for savings and time deposits also reflect the same comparative levels of demand. Belize banks are presently paying from 6.5% to 15% for deposits; St. Lucia banks are paying from 3% to 9.5%; other LDC banks are paying 2% to 7.5%.

Most commercial banks lend both via overdrafts and by term loans from one year to five years or even in a few instances, ten years. Equity from the borrower equal to 100% of the amount of the loan, and collateral equal to the same amount are generally required, although these requirements will vary depending on the quality of the borrower, previous borrowing record, and quality of the project.

In addition to the commercial banks, there are other private sources of funds for loans to the productive sectors in the LDC's, although none of them is of significant size compared to the commercial banks. Included in this group are General Finance Corporation with an office in Antigua, BARFINCOR with offices in St. Lucia, Antigua and one soon to open in St. Kitts, Barclays Development Fund covering the Eastern Caribbean from Barbados, Latin American Agribusiness Development Corporation (LAAD) also with a regional office in Barbados, trust companies owned primarily by commercial banks, British confirming houses, and deposits made directly in corporations by their customers.

General Finance Corporation, which is jointly owned by Neal & Massey and the Royal Bank, has just begun to offer equipment financing in Antigua for three to four years at rates of about 17% per annum, secured only the the equipment being financed. BARFINCOR is a subsidiary of Barclays which lends primarily for housing mortgages, but has financed commercial buildings. Barclays Bank Development Fund, also owned by Barclays, finances agricultural, industrial and commercial development projects. The total amount of money lent to the productive sector by these latter two organizations is not known, but it is thought to be quite small. British confirming houses, which are effectively wholesalers and financiers of raw materials and inventories, provide in the range of $5 million of financing, unsecured, at rates which are presently about 22%, although much of this would be for the distributive sector, rather than the productive sector. Customer deposits may provide as much as $5 million for companies, usually at rates above the local time deposit rate at banks, and below the prime lending rate. Again, much of this is used by the distributive sector. LAAD has just commenced lending in the Eastern Caribbean, and presently has only $200,000 outstanding in the LDC's. Trust companies which have often been set up by commercial banks to handle personal trust accounts, sometimes invest in commercial mortgages, but the total amount is probably small.

Public sources of funds for the private sector in the LDC's include the Caribbean Development Bank and the development finance companies or banks in each of the LDC's. Most of their loans are from five to twelve years at a rate of 10 1/2% per annum, with collateral contributions from borrowers required to be equal to 100% of the loan, and equity as high as 20% of the cost of a project.

The Development Finance Corporations (DFCs) receive the majority of their funds from the CDB, and on-lend these on conditions similar to those of CDB, but to companies requiring loans of under $100,000. (Larger loans are handled by the CDB directly.) As of the end of 1980, the DFC's had about $14 million lent to the productive sector, including about $8 million provided by the DFC in Belize.

With the exception of Belize, which has its own central monetary authority and currency, the currency of the LDC's (Eastern Caribbean Dollar) is administered by the Eastern Caribbean Currency Authority (ECCA) headquartered in St. Kitts. Although at present it is only an issuing authority and an investor of excess banking funds from the region, it is attempting to gain the approval of the member governments to become a true central bank with the authority to regulate deposit and loan rates, limit borrowing for certain sectors of the economy, and more stringently control foreign exchange and the money supply of the region.

(b) MDC's

The MDC's of the region (Barbados, Jamaica, Guyana and Trinidad) all have varied financial sources with varying degrees of liquidity. In Barbados, the Royal Bank of Canada, Barclays Bank, the Canadian Imperial Bank of Commerce, the Bank of Nova Scotia, Chase Manhattan and Citibank have offices, and there is a government owned commercial bank, the Barbados National Bank. The CDB also lends in Barbados, as does BARFINCOR, LAAD, General Finance Corporation, Trust Companies, Confirming Houses, Barclays Development Fund, and customers via deposits in companies, and the Barbados Development Bank.

The commercial banks in Barbados provide about $281 million of total credit, of which $55 million is to the productive sector. Of the $55 million, 52% is for short-term loans, and 25% for longer term loans of over five years to maturity. The loan to deposit ratio of the commercial banks in March, 1981 was 71%, which indicates that the commercial banks have loanable funds. They have however, been constrained by the Barbados Central Bank, from increasing lending to the distributive sector, and terms for personal and housing loans have been imposed to further restrict this demand. Lending rates are from 11% to 14%; savings and time deposit rates are 4% to 7-3/4%.

The Barbados Development Bank had at the end of 1980 approximately $16 million in loans outstanding to the productive sector. It usually lends, for periods of five to ten years at a rate of 11% per annum, with equity requirements of 30-40% of the cost of the project, and collateral of 100% of the cost.

Other sources of funds for the private sector include the CDB, General Finance Corporation (over $12 million), Confirming Houses ($5 million), customer deposits ($5 million), Trust Companies ($5 million), and LAAD ($50,000). Amounts for BARFINCOR and Barclays Development Fund are not known. The abovementioned amounts include funds for the distributive as well as the productive sector.

Exact figures for total amount and sources of financing for the private sector and/or productive sectors are not available for Guyana, Jamaica and Trinidad. Guyana, although experiencing low overall demand from the private sector (loan-to-deposit ratio of 62% for the commercial banking system), does have a serious problem with a lack of foreign exchange availability for the purchase of raw materials and inventory which greatly inhibits the demand for financing. The commercial banks presently have approximately $26 million in loans outstanding to the private productive sector. Jamaica faces a similar problem, even though demand for loans is quite high. Trinidad appears to have sufficient liquidity in its financial system, due primarily to oil related revenues. The private sector and banking community, however, have expressed concern about a tightened credit situation and the Central Bank of Trinidad has adopted measures to reduce the flow of credit for consumer and other personal borrowing.

2. Constraints on the Expansion of Investment

The Caribbean region has a relatively broad range of financial institutions which serve the private sector. However, the report of the Private Sector Task Force, Mission-contracted studies of the problems of private sector financing, and Mission discussions with Caribbean public and private sector leaders have identified a series of inter-related problems which is inhibiting a more rapid expansion of regional private sector financing. While it must be recognized that the country-specific environment is important in assessing the relative weight of the problems identified, there is a remarkable consistency in their overall pattern.

In general terms, the most common and critical problems are: (a) weak project identification and development due to the level of entrepreneurial acumen and motivation and lack of public and private sector support services for businessmen; (b) short supply of management skills; (c) commercial banks' inability to respond to the range of financing needs of small and medium-sized enterprises; and (d) the tedious, time-consuming and overly bureaucratic financing available through government institutions (such as national Development Finance Corporations) which is perceived as unresponsive to businessmens' needs.

The Task Force concluded that the degree of impact of these constraints varies with the scale of the enterprise involved. Three ranges of enterprises were identified: large-scale manufacturers with investment requirements exceeding $5 million; medium-size enterprises with financing needs of $500,000 to $5 million, and smaller-scale enterprises under $500,000. The largest-scale enterprises were not examined in detail since this scale of investment tends to have available to it a broader array of managerial and financial resources than do smaller investments.

(a) Medium-Scale Enterprises

The Task Force concludes that project identification and development is the most critical constraint inhibiting the expansion of investment for projects requiring financing in the $500,000 to $5 million range. Our discussions with the business community confirm the importance of this problem, but also indicate that fixed financing and equity capital can be a problem in specific instances, particularly at the lower end of the financial spectrum. In addition, in particular country settings such as Jamaica and Guyana, shortages of short-term foreign exchange working capital significantly inhibits the expansion of production.

(b) Smaller-Scale Enterprises

The Task Force identified a wider range of problems for the under $500,000 range of investments. Detailed Mission discussion with commercial bankers, the business community, and public sector officials confirm that there are significantly greater problems facing the smaller businessmen. In addition, to the constraints mentioned in (a) above, problems of satisfying the collateral requirements of commercial banks are more difficult for this group, and entrepreneurs without proven track records find it difficult to borrower from commercial sources. Managerial skills tend to be a problem which is particularly severe when a small operation seeks to expand its production. In addition, there is a very important distinction within this scale of enterprises: that of the experienced small-scale enterprise versus the very small, unexperienced businessman or artisan (hereinafter referred to as microbusiness). The former have a higher net worth and some experience as borrowers from commercial banks, although they usually have limited experience and managerial skills in new fields such as manufacturing. Microbusinesses typically have never borrowed from either commercial banks or DFCs, have no or very few employees, and are producing for a limited domestic or tourist-oriented handicraft market. They also exist in the context of occupational multiplicity, a cultural pattern of doing several different (but related) things for a living in order to minimize the overall level of economic risk.

Overall economic theory clearly suggests that a lack of financing is a constraint to private sector development in the region. Real interest rates appear to be negative; that is, bank interest rates, even when adjusted for placement fees and other charges, are lower than inflation rates. When real interest rates are negative, interest rates no longer play the role of allocating credit. That role is played by "credit-worthiness". Only the most "credit-worthy" can secure credit, while the less "credit-worthy" are denied access.

An important implication of the existence of negative interest rates is that some individuals, primarily the less "credit-worthy" are denied credit who would ordinarily secure it under competitive conditions; the proposed private sector development bank will address the credit needs of these individuals.

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The economic rationale for the establishment of the development bank, however, need not rest alone on the existence of negative real interest rates. If real interest rates were positive, the bank could promote private sector development by increasing the availability of credit to all borrowers.

C. <u>Project Strategy</u>

The Mission had concluded from its analysis of the constraints on development that no single institution can effectively respond to all the problems identified above. Therefore, several major initiatives are proposed within one overall program.

For medium-scale enterprises, AID had pledged $500,000 to support the operational cost of the UNDP/IFC Caribbean Project Development Facility (CPDF). The CPDF, operating out of Washington, is expected to make services available in 21 countries and states in the Caribbean: Anguilla, Antigua, The Bahamas, Barbados, Belize, Dominica, Dominican Republic, Grenada, Guyana, Haiti, Jamaica, Montserrat, St. Lucia, St. Kitts/Nevis, St. Vincent, Surinam, and the Netherland Antilles, Turks and Caicos and the British Virgin Islands. It will work in the area of project creation and development to assist entrepreneurs in developing projects for presentation to financial institutions. Although it will concentrate on firms requiring financing in the $500,000 to $5 million range, a special effort to include smaller-scale enterprises will be made in the Eastern Caribbean.

Medium-scale investment opportunities will also provide part of the potential market for the regional financial mechanism described below. We do not however, expect any significant amount of project funds to flow to investment toward the upper end of this range.

To serve the range of financial requirements of enterprises requiring financing of $500,000 or less, we propose that a new regional private sector development financing institution be created. Although the financial niche for this institution is not as sharply defined as it was in the case of other <u>financieras</u> AID supported in Latin America, there is a clear need for this institution. Medium term financing in some territories such as Belize and St. Lucia is a particular constraint for most investors. The immediate financial problem in others such as Guyana and Jamaica is shorter term foreign exchange financing for spare parts, raw materials, and export financing. Equity is a particular problem of the Eastern Caribbean LDC's. The financial institution must therefore, be very flexible in the financial services it offers and be able to adopt to country-specific environments.

In addition, to a financial mechanism, non-financial services will be critical to the expansion of sustainable private sector investment. These services include project identification and development, export marketing, business skills, and management assistance.

Given the constraints which face very small scale businesses, the Mission believes programs must be developed to serve microbusinesses on an island-specific basis and should combine a heavy emphasis on project development, basic management skills, marketing, etc. with modest financing or guaranty schemes. While non-financial support services are crucial to the success of a program to support microbusiness, it appears that they cannot be provided within the cash flow of an existing commercial financial institution, at least not in the initial states. In addition, an island-specific analysis of the constraints to microbusiness development must preceed the definition of an assistance program.

In recognition of the above, the Mission will seek to work with indigenous groups, such as chambers of commerce and private voluntary organizations, like the Pan American Development Foundation (PADF), to establish a non-financial support system for micro-business. We understand for example that PADF in association with Partnership for Productivity is working on an OPG proposal to support the establishment of National Development Foundations in Dominica, St. Lucia, and St. Vincent which would focus on small business development.

However, while non-financial arrangements may be country-specific, it appears more cost effective to utilize the proposed regional financial institution to channel funds to national-level institutions to provide loan funds to very small businesses.

For large-scale enterprises, no specific support is contemplated under the program. However, the regional financial institution which will be established as part of the program could play a critical role in bringing together investor groups and financial institutions. This role as intermediary could facilitate the Caribbean Basin Initiative trade and investment activities.

D. Project Design Alternatives

Several basic alternative models were evaluated in terms of their ability to address the constraints identified above, particularly project identification and development, fixed term lending, equity financing, and, to the extent possible management assistance. These included: expansion of funds available for the private sector financing through the CDB and DFCs; creation of a rediscound system for commercial bank lending using an intermediary such as the Eastern Caribbean Currency Authority (ECCA), and establishment of a viable private sector-controlled regional development bank.

1. Financial Mechanism

(a) Assistance Through CDB and DFCs

To date, the CDB has not established a sound track record in lending to private sector enterprises. While approximately 22% of its portfolio is to the private sector, most of this assistance is in the form of agricultural credit and on-lending through the DFCs. With its public sector/infrastructure orientation, CDB procedures are viewed as too cumbersome and lengthy by businessmen and overall it has a poor image as a source of financing for the private sector.

The DFCs are limited to financing projects of less than $100,000 (with CDB funds). While several DFCs appear financially sound and viable (Belize, Dominica, Antigua), others are struggling to survive. The image of most DFCs with the private sector is less favorable than that of the CDB, partially because of the higher perceived political interference with those institutions.

While the Mission will continue to work with CDB and through it with the DFCs to improve the impact of on-going AID programs designed to meet private sector needs, this basic option was rejected.

(b) Rediscount Mechanism

The existence of a well-developed commercial banking system in the region opens the possibility of a rediscount mechanism or similar system to increase the flow of resources to the private sector using financial institutions which are already in place. There are serious problems with this approach, however, such as:

(i) the only central regional institutions available which can perform a rediscounting function are the CDB and ECCA. Earlier AID attempts to encourage CDB to play this role failed; ECCA can only serve its member countries (the Eastern Caribbean LDCs) and is a relatively weak, understaffed institution.

(ii) Only debt financing (short or medium-term lending) is possible through this mechanism. Equity financing, a particular need of the Eastern Caribbean, is not feasible.

(iii) Rediscount schemes and other mechanisms to utilize the commercial banking sector work well when funds are tight as banks are then more willing to modify their lending behavior in order to build their portfolio by serving new clients. This situation does not exist for commercial banks in most territories.

(iv) In the Eastern Caribbean, the average cost of money to commercial banks is less than 4% with lending rates in the 10-12% range for productive activities to as much as 18% and above for consumer loans. It is difficult to conceive of a program which would give commercial banks a spread approaching that which they currently receive and would still provide a small spread to ECCA to operate the program.

(v) This approach would not achieve the desired objectives of eliciting Caribbean private sector commitment and financial resources in support of regional development.

While this approach has its limitations in terms of adequately responding to the broad range of financial constraints and therefore was not selected as the optimal model for the project, a mechanism to utilize the commercial banking system is an appropriate component of the final project design, particularly in the MDCs and capital-short LDCs such as St. Lucia and Belize. This is discussed below.

(c) Regional Private Sector Development Bank

To address the breadth of issues confronting private sector financing, the optimal approach at this juncture is to develop a regional private sector development bank. This approach will accomplish several principal objectives including the following:

(i) Creation of a mechanism for financing private sector investment and production - related activities which would include short and medium-term lending, equity participation and loans guaranties.

(ii) Mobilization of Caribbean private sector commitment to a regional effort, including contribution of substantial new equity.

(iii) Establishment of a sound, financially viable institution which over time will attract additional indigenous regional and external resources to the region.

(iv) Provision of a mechanism through which assistance to the private sector in project identification and other needed supporting services can be provided and/or coordinated.

Two major options were considered to implement this alternative: establish a new private sector regional development bank or restructure the Caribbean Investment Corporation (CIC) and convert it into a viable private sector entity.

In evaluating these options, the Mission consulted extensively with the private sector, visiting (with LAC/DR participation) St. Kitts, Antigua, St. Vincent, St. Lucia, Trinidad and Barbados to discuss the problems of private sector financing with commercial bankers, businessmen, manufacturers, and public sector representatives. The initial decision of the regional private sector was to attempt to restructure CIC rather than create and finance an entirely new regional institution. The decision was based on the existing financial resources of CIC, the benefits offered by the current CIC charter, including advantages in corporate tax liability, and freedom from exchange controls, and the private sector's concern that the public sector remain part of the new institution to assure its cooperation and support over time.

While this decision carries with it certain liabilities as well, such as a possible conflict of objectives between the public and private sector, CAIC, as the regional spokesman for the private sector, is committed to this approach at this time.

2. Supporting Services

An equally complex design question was to evaluate the principal approaches to financing support services to small and medium-sized borrowers such as project identification and appraisal, assistance in marketing, export promotion, training in business skills (e.g. accounting, cost and inventory control, labor relations), and overall management. Factors such as those listed above are critical to the development of viable, sustainable private sector investment in the region. The following major options were considered: (a) establish a services group associated with but not financed by the banking institution providing the full range of anticipated support services; (b) finance a minimum level of services wihtin CIC (focused particularly on project identification and promotion); and (c) depend on other institutions and programs to provide all services.

Inclusion of all support services within CIC was rejected as being too costly, creating an extremely complex and management-intensive unit within CIC, and not being cost efficient given the extent of resources available from other sources which is or should be available during the project implementation period.

Option (c) was also rejected as an exclusive approach primarily because of CIC's immediate need to build a sound project portfolio (thereby generating income) by providing to potential clients a critical base of services not available from other sources.

At this state in project development, it appears that the best approach is to provide project identification and development services and on an experimental basis upper and middle management assistance to clients as part of the CIC package. The level of sustainable services which CIC can provide and the exact type of services to be offered initially and over time will be carefully examined during the intensive review. In addition the role of CIC as a broker to identify and coordinate services available from other sources to meet the needs of its clients will have to be explored in detail.

3. Microbusiness Fund

The problem of encouraging the development of very small-scale enterprises (including artisans) is particularly important in the Eastern Caribbean. A recent study of the labor market in Dominica reveals that the growth of self-employment or employment in small concerns will be a crucial source of employment in the immediate future. To assist in the development of microbusiness, the Mission is persuaded that country-specific programs are preferable in order to tailor project design; however, a mechanism was needed to facilitate the flow of resources to specific island projects, as well as facilitate their development. In our judgement, CIC appears to be the ideal vehicle for a microbusiness assistance program as long as its financial viability is not compromised by the activity and it is provided with staff resources to carry out the program. Thus, CIC can serve as a pass-through mechanism for microbusiness funding; the administrative and programmatic burden of the disbursement of funds to each recipient will be borne by in-country institutions.

III. PROJECT DESCRIPTION

A. Goal and Purpose

The goal of the project is to mobilize the indigenous private sector for increased production and productivity to develop the economic base of the region. The project purpose is to increase private sector productive activities in the English-speaking Caribbean through the expansion of financial services which are responsive to the needs of the private sector and to provide non-financial services in support of these activities.

B. Project Objectives

To achieve the project purpose, four major objectives (EOPs) are envisioned as follows:

1. Establish a viable regional financial institution through the revitalization of the Caribbean Investment Corporation to provide a wide range of financial services to private sector borrowers.

2. Provide and/or coordinate provision of targetted services to clients of CIC in areas such as project identification and marketing assistance.

3. Undertake innovative, experimental programs to enhance the management capability of private sector manufacturers.

4. Capitalize a fund for micro-business lending in selected countries of the Eastern Caribbean.

C. Implementing Institution

The Caribbean Investment Corporation was established in August 1973 as a joint venture between regional member states (Jamaica, Trinidad and Tobago, Guyana, Barbados, Antigua, Belize, Dominica, Grenada, Montserrat, St. Kitts/Nevis, St. Lucia and St. Vincent) and the regional private sector, through the Caribbean Association of Industry and Commerce. The Corporation has authorized capital of EC$15 million (US$1.00 = EC$2.67) of which an initial issue of EC$5 million was to be subscribed in the first five years; EC$3 million by member states and EC$2 million by the private sector. CIC was established to provide a source of risk capital in the CARICOM LDCs, (Antigua, Belize, Dominica, Grenada, Montserrat, St. Kitts/Nevis, St. Lucia and St. Vincent). In carrying out that objective, CIC made financing available through equity, loans and guarantees. As of December 31, 1980, the accumulative approved investments were as follows:

Summary of Approved Investments
(Cumulative 1980)

	Total EC$	%
Equity	2,455,120	65.2
Convertible Loan	837,250	22.2
Loans	330,000	8.8
Guarantees	141,040	3.8
	3,763,410	100.0

Summary of Approved Investments
By Sectors

Total Investments Cumulative to 1980	Number	Total EC$	%
Industry	19	2,033,540	54
Agro-Industry	7	1,281,000	34
Tourism	3	448,870	12
	29	3,763,410	100

As of December 31, 1980, EC$4,426,300 of the initial issue of EC$5 million share capital was subscribed and EC$4,303,900 was paid-up. Member states had fully subscribed the EC$3 million allotted to them and of this amount of EC$15,000 was unpaid by one member state. Of the EC$2 million to be subscribed by the private sector EC$1,426,300 was taken up and by December 1980 EC$107,400 was unpaid.

In addition to paid-in capital, CIC signed a loan with the Caribbean Development Bank for US$1.26 million line of credit for its investment program in 1977. Also in that year, it received a conditional loan of one million European units of account from the European Investment Bank to make equity and quasi-equity investments in agro-industry and tourism.

Initially, CIC undertook the aggressive promotion of activities in the LDC's. By 1977 its operations had peaked and after 1978 its operations were essentially a holding action following the emergence of serious problems with its portfolio, failure of new resources to materialize, and an overall deterioration of its cash flow caused in part by high administrative costs.

By December 31, 1980, its accumulated deficit reached EC$863,000. Most of its income for that year was derived from interest on deposits (EC$231,230) followed by dividends (EC$86,165) and loan interest income (EC$55,774). The net worth of CIC as of December 31, 1980 was approximately EC$3.4 million (US$1.3 million).

As discussed above, CIC currently is a shell organization. Only one professional remains on the staff (the acting general manager) and his contract expires before the end of the year. No new activities are being undertaken by the Corporation. However, CIC continues to earn income through long-term deposits held aborad, interest income on loans, and some return on equity investment.

Earlier studies of CIC identified a number of reasons for its financial difficulties and failure to sustain itself as a development financial institution, including:

(1) The structure of CIC's portfolio was such that it could not generate a positive cash flow. Over 65% of its resources was in equity and another 22% in convertible loans; only 8% was in the form of loans;

(2) Poor project appraisal and portfolio management;

(3) Political intervention in the investment selection process;

(4) Failure to undertake any financial planning, including how CIC could make optimal use of its equity resources and CDB and EIB financing; and

(5) Weak management in most aspects of the operation of the Corporation including failure to control operational and administrative expenses.

The major purpose of the May 1981 meeting of CIC's Board of Governors was to determine whether CIC would cease to exist (possibly replaced with a "private sector window", established in CDB) or whether it could be restructured based on a fundamental shift of control from the public to the private sector.

The LDC Governors agreed with CAIC that it was important to keep CIC as a separate institution and also agreed to accept the principal of private sector control. The main points of the resolution approved by the Board of Governors (with the single negative vote cast by Guyana) are as follows:

The private sector will be allowed to acquire a majority shareholding of 51% in the Corporation subject to the following conditions:

1. a) that the private sector subscribe in cash a minimum of US$2 million to the equity capital of the Corporation on or before April 30, 1982;

b) that CAIC procure and deposit to the account of the Corporation a sum no less than US$12 million as soft loan funds to the CIC for on-lending. Unless and until the aforesaid conditions are met, the present ownership structure shall remain.

2. a) that the portfolio of the Corporation be amended to permit soft loans and investments to be made on a ratio of 70% LDC and 30% MDC;

b) that future investment policy in respect of the loans/security ratio of disbursements be on a basis of 60% loan to 40% equity subject to review at the next Annual General Meeting of the Board of Governors.

3. That in the disbursement of soft funds emphasis should be placed on small and medium-sized enterprise in the region.

4. That the management of the Corporation be placed in the control of the private sector with immediate effect, and this shall continue provided that the conditions of 1(a) and (b) above are satisfied.

D. Detail Project Description

1. Creation of a Regional Financial Mechanism

To restructure CIC into a viable and sustainable private sector development institution, the following are among the major steps which must be taken:

(a) Shift to Private Sector Control

Currently, CIC's equity is 60% public sector and 40% private sector. The actual control of the public sector in the operations of CIC has been even greater than their equity share would imply, since the Board of Governors is composed of a representative of each of the twelve member states and four private sector representatives with each Governor having one vote. The degree of political influence possible under this structure and the difference which is inherent between the public and private sector in terms of the performance of a financial institution requires a change in the equity base, the Board of Governors and the Board of Directors of CIC. At minimum, the private sector must have 51% control of CIC based on ownership of equity and a broad range of operational authority must be delegated to a Board of Directors with dominant private sector control to permit it to operate on a sound financial basis.

(b) Loan/Equity Balance

The major factor in the financial deterioration of CIC was its concentration on equity investments rather than fixed-term loans or other investment instruments which would have yielded income on a more immediate basis. In addition to medium-term lending and equity, CIC also should be permitted to provide working capital, export financing, and other financial services as necessary depending on the financing requirements of the private sector in a particular country. The Corporation must develop an overall financial strategy which will support rather than erode its viability. The constraints imposed by the Antigua resolution of the Board of Governors will have to be modified to remove limitations on the composition of the portfolio.

(c) Geographic Focus

The Corporation was established as part of the CARICOM negotiations as an incentive to the LDCs to join the integration movement in the English-speaking Caribbean. It was seen by the LDCs as an instrument to redistribute the gains of the integration movement from the MDCs to the LDCs. Therefore, CIC operated only in the LDCs. The results of extensive discussions with private sector leaders in the Eastern Caribbean and our best assessment of the market in the LDCs indicate that the level of current demand is limited and intensive work will be required to identify and develop bankable projects. In view of that, and the requirement that CIC be a profitable enterprise in order to secure new private sector support, the loan portfolio of CIC cannot be skewed to achieve non-financial objectives. While other elements of the overall project will concentrate in the Eastern Caribbean LDCs (project identification and development assistance, management improvement, equity fund, and micro-business support), CIC must be able to spread its risk over as broad an area as possible and must be able to build an income-earning portfolio as quickly as possible. Therefore, CIC will seek sound investment and other development-oriented income-earning financial operations both in the MDCs and LDCs.

(d) Staff and Operational Costs

The costs of operating CIC must be kept within its ability to carry that staff within its cash flow. While this appears to be self-evident, there will be significant pressure on the operational cost side of CIC given its geographic range, costs associated with initial start-up and project development and keen interest on the part of the LDCs to get something going in each of the territories.

The quality of the general manager is one of the major factors which will determine the financial viability of the Corporation. In addition, a small and highly professional full-time staff will be critical to support the General Manager.

(e) Financial Activities

The CIC charter currently limits the Corporation to investments in industry, agro-industry and tourism. This will have to be modified to permit CIC to operate in a wide range of areas including agriculture, warehouse financing, export financing, transportation, and other areas.

(f) New Resources

CIC will require additional new equity and access to long-term loan capital to re-initiate its operations and become viable. In addition to new equity from within the Caribbean, the possibility of mobilizing equity from U.S. and other countries will be considered.

(g) Collaboration with Regional Financial Institutions

One other shift in the structure and operation of CIC appears critical for its financial viability and development impact: it must utilize the existing financial system to the maximum extent practicable. The costs of operating throughout the English-speaking Caribbean in terms of the development and management of its portfolio are such that CIC will have an extremely difficult time living within its cash flow if it makes only direct investments/loans. In addition, it will be particularly hard pressed to provide financial services to small borrowers, e.g. those with total financing needs of $50,000 or less. Finally, there exists in the region substantial resources (financial as well as managerial) in the commercial banking sector as well as the DFCs or other public/private financial institution which should be utilized.

Therefore, it is contemplated that CIC will act in part as a second story financial institution channelling loan resources through the existing range of financial institutions particularly for small borrowers. While a number of issues have to be explored (many of which are country-specific) including extent to which commercial banks will bear the commercial risk, whether a rediscount mechanism, line of credit or joint financing arrangements are the most viable, and the spread which will be offered commercial banks, it is clear from initial discussions with financial institutions that many would welcome an association with CIC.

(h) Financial Operations

In terms of its lending activity, CIC will make loans at prevailing competitive commercial rates in the region. This rate varies island to island. The intensive review will examine the issue of interest rates both in terms of rates needed to maintain CIC's financial viability and service the needs of its client group.

In addition to lending, CIC will make selected equity investments, focusing those resources in the Eastern Caribbean LDCs. Information collected to date indicates that sources of equity financing are particularly short in the LDCs and that firms are currently highly leveraged (i.e., high debt to equity ratios). These factors inhibit the ability of existing firms to expand through debt financing alone and the ability of entrepreneurs to establish new firms.

2. Technical Assistance and Support Services

As discussed above, the provision of a wide range of support services for CIC clients or potential borrowers through the Corporation is not recommended. However, a certain critical range of project identification and development assistance must be within the capability of CIC to provide. For additional project identification assistance and broader services to support its clients, CIC will have to look to a series of other institutions/activities.

To generate income necessary to pay staff, reinvest in operations, and pay dividends to stockholders (over a relatively short-time frame), CIC must build a solid portfolio quickly. It appears that the region (particularly the Eastern Caribbean) does not have a backlog of sound private sector investment projects which have been developed to a "bankable" level and which lack only financing to go forward. While significant development potential exists with ideas or specific investors interested in new investments or expansion, these will require the application of professional skills to develop into sound projects.

CIC must have a basic staff capability in this area. Initially, the need for this service will be significant as CIC builds its portfolio. Therefore, a staff modestly larger than CIC's cash flow will be required (or a combination of staff and contracted short-term assistance). It is expected that AID grant resources will be necessary to support these costs during the initial phase of the project. At the end of that period, CIC should be able to absorb the staff necessary to carry out this function within its cash flow and sustain those services over time. Since development of bankable projects is a particularly severe constraint in the LDCs and will limit the overall amount of financing flowing to those territories, project grant assistance will be concentrated in the Eastern Caribbean.

Given the importance of the provision of a broad range of services to CIC clients, CIC will have to access other sources of assistance to augment its own project identification and development capability as well as to link clients with institutions which can provide assistance in areas such as marketing, export promotion, business skills' training, and the like. Some services are or could be available under other AID projects such as the Project Development Assistance

Program, Private Sector Investment Assistance (with CAIC), the IESC program, the UNDP/IFC Caribbean Unit and current grant projects with the CDB. These and other donor projects are discussed below.

Additional resources through these programs may be necessary to augment those currently available to support CIC's client group. During the intensive review, possible supplementary financing of support services to be provided outside CIC will be analyzed in depth and we anticipate resources will be channelled through CIC to institutions such as CAIC based on that analysis.

In addition to services to CIC clients, the project also will fund advisory assistance to the management of CIC in areas such as investment strategies, cost accounting, and management information systems. The extent of this category of assistance will be defined during the intensive review.

3. Management Assistance Program

Another element of the proposed project will be to undertake innovative activities to help address the upper and middle management constraints facing businesses. While this is a general problem throughout the region, it is one of the fundamental issues in the Eastern Caribbean. Therefore, we propose to provide grant financing through the project to fund programs such as the placement of experienced U.S. or Caribbean private sector managers or management consultants to work directly with CIC clients in the Eastern Caribbean for sustained periods of time. Financing exchanges between regional businessmen and potential suppliers and/or markets, and other activities to enhance the management ability of area entrepreneurs will be evaluated.

To implement this activity, the Mission will examine several options during intensive review, including whether to provide funds directly to other institutions (such as CAIC, IESC, and/or the Barbados Institute of Management and Productivity), how to coordinate project activities with other donor programs, and the extent to which the recipient business community should contribute to the program.

4. Microbusiness Development Fund

The final element of the grant program will be to utilize CIC as a vehicle to establish country-level credit funds for microbusiness in the Eastern Caribbean LDCs. CIC's role in the process would be to review an overall microbusiness fund proposal from a specific territory which was sponsored by a financial institution on that island (such as a DFC or commercial bank). If the proposal fulfilled agreed-upon criteria, CIC would approve total financing for the fund. While the funds would be disbursed on a grant basis to the territory, they would

C/14

be used to establish a revolving loan fund in the sponsoring institution. This mechanism would support promotional and skills training activities which are or will be developed in the Eastern Caribbean including the proposed AID/OAS Skills Training project, the Pan American Development Foundation proposals for St. Lucia, St. Vincent, and Dominica and small business programs which could be mounted by territory chambers of commerce with the support of CAIC.

Interest in assisting businesses requiring loans smaller than CIC could make directly and involving risks beyond normal commercial banking acceptability (i.e. limited security) is very high in the public sector, CAIC, and within the private sectors in various territories. During intensive review, the viability of this program, involving identification of specific support institutions and a better assessment of demand for funds will be undertaken. In addition, we will seek financial or in-kind contributions from sponsoring institutions.

E. Projected Levels of Financing

An overall assistance package of $20 million in FY 82 ESF funding is envisioned to support the overall program of which $500,000 will be granted to support the UNDP/IFC Caribbean Project Development Facility funded outside the CIC project. Based on preliminary information, the following is proposed:

Financial Plan

(in U.S. $'000)

	AID	CIC	TOTAL
Loan	14,000	-	14,000
Grant	5,500	-	5,500
Equity 1/	-	3,300	3,300
Other 2/	-	1,200	1,200
Total	19,500	4,500	24,000

1/- Projected new equity ($2 million) and current net worth ($1.3 million).

2/- Cash held by CIC.

An AID loan of up to $14 million and a total grant of $5.5 million is proposed for the project. While the final amount of the loan will be determined based on the feasibility study currently in process, an upper limit of $14 million is anticipated based on a debt to equity ratio of approximately four-to-one. This ratio is consistant with those utilized in AID loans to other similar financial institutions.

It is proposed that the loan terms be the most concessional possible as justified by the cash flow projections to be developed during the intensive review. At a minimum, we propose that the loan be repaid over a 20 year period including a grace period of 10 years at 4 percent interest. Loan funds will be used by CIC to finance medium-term lending and other types of financing in the English-speaking Caribbean and, on a selective basis, equity investments in the MDCs (including preferred stock and convertible debentures). In addition, we anticipate AID loan funds will be used to make selected shorter term loans for working capital, spare parts, and essential raw materials imports when that type of financing is not available from existing commercial sources. Currently, we anticipate private sector productive enterprises in Belize, Jamaica, Guyana and possibly St. Lucia require this type of financing in addition to medium-term lending to finance the expansion of their activities.

A grant of $5.5 million is proposed to support a number of initiatives associated with the expansion of employment and production in the private sector as part of the overall project. Of this amount, $2 million will be used to provide CIC additional resources to make equity investments in the LDCs only. While use of grant funds for equity investments is not usual in projects of this type, the particular needs of the LDCs and our interest in accelerating the pace of private sector expansion in those territories argue for consideration of this mechanism.

To support the institutional development of CIC, up to $1.5 million is anticipated to provide: (a) direct technical assistance to the Corporation and (b) finance support services. Technical assistance will probably take the form of an overall consultant contract to assist CIC's management in establishing the critical operations of that institution. Activities such as long-term financial planning, on-the-job staff training, development of procedures for project assessment and approval, and installation of a sound accounting and management information system will be undertaken. During the intensive review, the nature of this assistance, time and costs will be determined.

A minimum critical level of support services to be provided by CIC to its clients or potential clients also will be grant-financed. The scope of services to be provided by CIC, the extent to which those services can and should be absorbed over time within its cash flow, and the extent to which CIC should look to other institutions to work with its clients will be examined during the intensive review. However, we estimate that project development specialists will be contracted by CIC to work in the Eastern Caribbean LDCs and Belize and the MDCs. Short-term technical assistance for clients in specific technical areas related to the development of bankable projects (selection of equipment, marketing outlets, and specialized export marketing assistance) also may be required.

During intensive review, we will also examine whether additional assistance to institutions such as CAIC, the IESC, the Barbados Institute of Management and Productivity (BIMAP) to undertake work for one or a group of CIC clients should be provided within the overall framework of the project.

In addition, a management assistance program will be financed within this element of the financial plan. Again, the question of whether CIC should manage this component itself or whether it will be channeled through another institution or institutions must be examined.

Finally, the grant will contribute $2 million to establish a microbusiness fund within CIC and to provide a long-term advisor to manage its operations. Given the experimental and high-risk nature of this activity, we propose that CIC assume no financial risk to manage the fund. CIC will pass AID grant funds through to participating financial institutions on a grant basis; they in turn will on-lend to very small businessmen and artisans. A revolving loan fund will be created at the national level rather than within CIC.

The Corporation will contribute a minimum of $4.5 million to the project, including approximately $1.2 million held in long-term deposits (attributable to the CDB loan), its current net worth of approximatly $1.3 million, and approximately $2 million in new equity from the Caribbean Private Sector. CIC's equity will provide a flexible basis to undertake project financing arrangements for which AID resources cannot be used. Creative use of guaranty mechanisms, including securing commercial bank loans with cash deposits held outside the region is one such possibility.

To augment CIC's equity base, CAIC and RDO/C will examine the possibility of seeking the participation of firms in the U.S. as well as other countries (e.g. Venezuela). This would create a positive relationship between the English-speaking Caribbean business community and their U.S. counterparts. Direct involvement of U.S. businesses in CIC would significantly enhance the Caribbean Basin Initiative.

IV. RELATIONSHIP TO AID AND OTHER DONOR ACTIVITIES

As indicated in the previous section, CIC must look to other institutions and/or programs to support a number of non-financial needs of its clients. In addition, the microbusiness initiative will not be viable unless support services are in place to make effective use of the resources to be provided by CIC. The following is the Mission's initial assessment of the network of related activities which may be called on to support the overall project. Clearly at the PP state, a more complete assessment of support services and a description of how CIC and its clients will relate to these services will be required.

A. AID-Financed Activities

1. Caribbean Association of Industry and Commerce (CAIC)

As described above, RDO/C has signed an agreement with CAIC to provide up to $400,000 in grant funds to support the revitalization of CAIC. While resources under the pilot grant in areas of immediate importance to CIC (export promotion, management training, identification of investment opportunities) are very modest, RDO/C plans to expand its assistance to CAIC in FY 81 if the pilot grant proves successful. During the intensive review, we will work with CAIC in determining how it can relate to CIC and the needs of the business community which it can best provide.

2. Project Development Assistance Program (PDAP)

The PDAP Project, though an AID-direct contract, will place long-term advisors in Antigua, Dominica, St. Kitts/Nevis, St. Vincent, St. Lucia and Barbados. In addition, up to 180 person-months of short-term technical assistance will be provided based on areas of need identified by the long-term advisors. PDAP, therefore, is a flexible mechanism which can be used to provide project identification and development assistance to potential clients of CIC. To coordinate the resources available under the PDAP Project with CIC's needs, several steps will be taken. First, initial contacts will be established between the PDAP chief of party (and his team of resident advisors) and the Caribbean Association of Industry and Commerce. This will be done as part of the scheduled orientation program for the PDAP contract team which will be the first activity under the PDAP Project.

Second, frequent contact between the PDAP chief of party and the general manager of CIC will be maintained. Since the PDAP team is contracted to AID directly, we can assure that appropriate consultation takes place and that PDAP resources are applied to the problem of project identification and development.

3. On-going Activities with the Caribbean Development Bank

Grant funds are available under the Employment/Investment Promotion I and II grants which have not been fully programmed by CDB. As a result of the recent evaluation of the overall EIP program, we will be working with CDB in revising the focus of project activities. This involves assistance to the private sector under the grant programs as well as financial assistance under the loan program. We will first involve CAIC in discussion with CDB to improve the contact between CDB and the private sector.

4. International Executive Service Corps (IESC)

IESC has a regional office in Barbados serving the Eastern Caribbean. Projects have been initiated and a number of areas and others are in various stages of preparation. IESC is proving its ability to provide assistance to address specific technical/managerial problems in the area. Particularly important is the expanded focus of IESC in the small business area. While IESC is seeking to coordinate its efforts through Chambers of Commerce in the Eastern Caribbean through CAIC, their resources may be particularly valuable to assist CIC clients. During the intensive review, means to achieve better coordination with the IESC program will be sought.

5. Latin American Agribusiness Development Corporation (LAAD)

In 1980, AID signed a $6 million loan with LAAD to expand the activities of LAAD in the Eastern Caribbean and Central America. LAAD develops and finances small and medium-sized agribusiness and agribusiness-related industries with growth potential and with emphasis on the development of the marketing capabilities of the companies it supports.

Of the $6 million loan, $2 million will be used in the Caribbean. LAAD has established an office in Barbados staffed with one full-time professional. To date, two projects have been financed in the area and several others are under study.

Given the limited resources of LAAD in the area, we anticipate possible joint ventures or other types of cooperation between the two institutions. Robert Ross of LAAD has met with the leadership of CAIC and with the consulting team studying the revitalization of CIC. This has set the stage for future cooperation between CIC and LAAD.

6. UNDP/IFC Caribbean Unit

As discussed above, the IFC-sponsored Caribbean Unit will work in the Caribbean to identify projects for financing in the $500,000 to $5 million range and work with investors to package projects for financing. This three-year effort will be supported in part through a $500,000 grant from AID.

Clearly, coordination of CIC efforts with this project is essential, particularly in the Eastern Caribbean where we understand IFC has agreed to place particular emphasis on projects requiring financing of less than $500,000.

B. Planned AID Projects

RDO/C is examining several project ideas which relate to and support the overall CIC project. First, we are working with the Organization of American States (OAS) on an initial Skills Training Project to assist Barbados, St. Lucia and Dominica. The Barbados sub-activity will concentrate on improving the training of unskilled youth for wage employment and developing in-plant training. The Dominica and St. Lucia sub-activities will concentrate on developing the skills of unemployed and underemployed youth in skills for self-employment. The latter would create a potential pool of demand for the funds to be provided under the microbusiness aspect of the project.

Secondly, we are working to develop a project to finance the establishment of a reliable inter-island shipping service and to expand inter-island trade in agricultural commodities. Both projects should make agri-business ventures more viable within the Eastern Caribbean by reducing risks in the area of shipping and marketing. This should expand the horizon of sound investments for CIC.

C. Other Donor Activities

Other donors, including the UNDP/UNIDO, the British Development Division, the Canadian International Development Agency, the European Community, and the German Agency for Technical Cooperation, are active in programs which provide assistance to develop the private sector in the Eastern Caribbean. For example, the British, through a contract with the firm of Coopers and Lybrand, have assisted St. Vincent in attracting a number of foreign firms to establish enclave industries. They also have a pilot microbusiness program in St. Lucia and other territories.

The Canadians have been working with the Barbados Institute of Management and Productivity (BIMAP) to expand its management training program and have discussed other types of training assistance with the Eastern Caribbean Common Market Secretariat (ECCM). The West German Government is seeking ways to link German and West Indian businesses through market development, investment and technical assistance. In addition, ECCA has approached the Inter-American Development

Bank to examine the feasibility of a loan guaranty mechanism for small business in the Eastern Caribbean.

During the intensive review, other donor programs which support the CIC program will be identified and steps identified to coordinate their efforts with RDO/C's initiatives.

V. PROJECT DEVELOPMENT STRATEGY

A. Project Development Plan

Following the decision of the CIC Board of Governors in Antigua, RDO/C was approached by CAIC to undertake a detailed feasibility study of the revitalization of CIC. Among the issues to be explored were: market for CIC in the LDC's and MDC's; structure and operations of a restructured CIC; current financial conditions of CIC; and the technical and other services necessary to make CIC a viable development institution in the Eastern Caribbean. RDO/C proceeded to contract the firm of A.D. Little (ADL) under an IQC arrangement to undertake the study.

During July and August, the ADL team, augmented by a Mission-financed PSC, visited all the countries of the English-speaking Caribbean, excluding Trinidad. The draft report is currently under preparation and will be reviewed in Bridgetown with the Mission and the Executive Board of CAIC. The ADL study should clarify whether CIC can be restructured as a viable regional private sector development bank. Answers to issues such as the precise financial niche which CIC would fill in each territory, the nature of the market for its services, the amount of technical assistance and support services which will be required to serve the needs of CIC's clients, impact on cash flow of various mixes of loan and equity financing, return on equity investment, and appropriate staff size and compensation for CIC will flow from the ADL analysis.

Following review of the ADL draft report in Barbados, in mid-October, and assuming the study is favorable, ADL will prepare a prospectus describing a restructured CIC for use in promoting CIC to the public and private sectors. Their report also will serve as the basis for convening a meeting of the CIC Board of Governors to review the Antiguan resolution and negotiate the scope of the restructuring of CIC.

In addition to the ADL study, the Mission will conduct a study specifically focused on microbusiness development in the Eastern Caribbean. With assistance from LAC/DR, an overall scope of work for the study will be completed in early October and contracted immediately thereafter.

Following identification of a core investor group, completion of the ADL and microbusiness studies, and positive responses from the public sector regarding the parameters of restructuring CIC, a PP will be prepared. The Mission anticipates that 3-4 weeks of TDY assistance from LAC/DR from the Private Sector Officerwill be necessary to augment Mission staff for the completion of the PP.

B. Issues

The major purpose in submitting a concept paper at this time is to explore with relevant officers in AID/W and the Department of State the basic components of the project design, including guidance on a number of issues which will be faced prior to PP preparation. The following are among the issues for which we seek more specific guidance.

1. New Private Sector Equity

While the Antigua Board of Governors's resolution established the requirement that the private sector contribute $2 million in new equity, less than $670,000 would provide the private sector with 51% majority in terms of the current equity base. Therefore, the exact amount of new equity from the private sector for CIC is not fixed. Given economic conditions in the LDC's and the past track record of CIC, raising new private sector equity will not be an easy task. Based on other similar types of past AID loans, a debt to equity ratio of between 4 or 5-to-1 will be used as a guideline and indicates that an AID loan in the $14 million range is feasible. However, the final amount of the loan/grant package will be determined by an assessment of the market for CIC and the amount of new private sector equity actually pledged.

2. Limitations on CIC Sub-loans

Typically, AID has limited funds passed through intermediate credit institutions to those with specific target groups (e.g. small farmers, businesses with less than a certain total amount of fixed assets) or other criteria (e.g. maximum new capital per job created)to achieve particular equity objectives. In the initial stages of establishing CIC as a viable financial institution RDO/C believes the least possible number of restrictions should be placed on CIC. Specifically, we proposed to exclude from possible CIC financing only activities which are inconsistant with the objectives of the project.

Types of limitations to be reviewed include: (a) requiring private sector majority ownership of all firms in which CIC invest; (b) requiring substantial (although perhaps not majority) ownership of firms by residents of eligible territories; and (c) not financing loans which will be used to finance the retail/distributive sector.

3. AID Approval Rights

Given the flexibility we anticipate in CIC's operations and in view of the fact that a guaranty of repayment by Caribbean governments is not probable, active monitoring both during and after project disbursement is anticipated. A number of conditions and covenants will be considered which will give AID essential rights and privileges. While these will be explored fully during intensive review, the following are among the types of controls we are considering: (a) limitation on approval of subproject investment size without AID consultation; (b) approval of key management and changes thereof; (c) consultation prior to assuming new debt; (d) approval of all subprojects involving grant-financed equity; and (e) approval of all subprojects in which there is public sector financial interest.

4. Terms of the AID Loan

The most concessional AID loan terms which are appropriate for the project are proposed. As a minimum, the AID loan be made on the basis of a 20 year repayment, including a 10 year grace period at an interest rate of 4%. The ADL study will assess the impact of varying the terms of the AID loan on CIC's projected cash flow; this data will be used to support the specific terms to be proposed in the Project Paper. In addition, CIC is obligated to repay the AID loan in U.S. dollars. The risk of non-convertibility of borrower repayments to CIC will be lessened with concessional financing by AID.

5. Focus on Resources in the Eastern Caribbean

To assure that CIC operate as a viable and nominal profitable institution, RDO/C does not propose that a specific minimum of its portfolio be placed within the Eastern Caribbean LDC's. However, given the acute problems which the LDC's face in terms of project creation, financing, and overall management problems, specific project elements are proposed which will provide additional resources to the LDC's in financial and non-financial terms. These include: concentration of project creation and development resources within the Eastern Caribbean LDC's; grant-financed micro-business pilot program and equity investment fund, and concentration of management assistance in clients located in the LDC's. These geographically focused activities should enhance the ability of the private sector in the Eastern Caribbean to secure loan financing from CIC and provide specific production and employment related benefits to them.

Letter of May 11, 1981
Also attached

JUN - 2 1981

Mr. G. Arthur Brown
Deputy Administrator
United Nations Development Programme
One United Nations Plaza
New York, NY 10017

Dear Mr. Brown:

I am responding to your letter of May 11, 1981, to M. Peter McPherson, Administrator of A.I.D., concerning the proposed Caribbean Project Development Facility. I am pleased to inform you that, subject to the conditions set forth below, the United States Government, acting through the Agency for International Development, intends to provide you with U.S. $500,000 in order to partially finance the project identified in the Project Document Number RLA/81/010 of the UNDP, for which IBRD/IFC is the Executing Agency.

A.I.D.'s contribution cannot be made prior to our Fiscal Year 1982, which begins October 1, 1981, and is subject to the availability of funds for this purpose. In addition, the agreement evidencing A.I.D.'s contribution must contain provisions for the furnishing to A.I.D. of audit reports prepared by the Board of Auditors of the United Nations (or other independent auditors satisfactory to A.I.D.), the refund to A.I.D. of any interest which might accrue on A.I.D.'s contribution, and the use of a Federal Reserve Letter of Credit, against which periodic payment vouchers are to be presented.

These provisions, as well as any others deemed necessary, will be provided by A.I.D. in the form of a draft project agreement at a later date.

Sincerely yours,

Edward W. Coy
Acting Assistant Administrator
Bureau for Latin America
and the Caribbean

LAC/DR:JPBittner:gw:5-27-81

Clearances:
LAC/CAR:GHill: ____ date 6/1/81
LAC/DR:CLeonard: ____ date 5/28/81
LAC/DR:MBrown: ____ date 5/28/81
LAC/DP:DLazar: ____ date 5/29/81
GC/LAC:GWinter (Draft)
LAC/DR:ILevy ____ Date 5/29/81

cc: ES

RECORD COPY

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SUBJ: PRM 7-2

UNITED NATIONS
DEVELOPMENT PROGRAMME

PROGRAMME DES NATIONS UNIES
POUR LE DEVELOPPEMENT

MAY 15 11 03 AM
ONE UNITED NATIONS PLAZA
NEW YORK, N.Y. 10017

TELEPHONE: 754-1234

CABLE ADDRESS: UNDEVPRO • NEW YORK

EXECUTIVE SECRETARIAT

REFERENCE:

11 May 1981

mw DUE 5/28/81
ACTION: AA/LAC for AA/LAC sig. w/cc tol
INFO: McPherson/Wheeler logs, AA/LAC

Dear Mr. McPherson,

I have the pleasure of transmitting for your review and approval the project document for the Caribbean Project Development Facility, a prospective UNDP project in respect of which your agency has given a preliminary indication of supporting as a financial co-contributor.

As you may have been informed, the project described in the attached document was considered and approved by the Ad Hoc Advisory Committee of the Caribbean Group at their March 9 meeting in Jamaica. The Chairman of that meeting expressed the hope that the Facility would be "operational" by the time of the next meeting of the full Caribbean Group, which will be held in Washington from 23-26 of June. It is our hope that financial arrangements for the Facility can be completed by the time of the regular annual Caribbean donors conference scheduled for Paris on June 2.

As a prospective donor, the basis on which the Facility will be financed and the obligations that UNDP and the IBRD/IFC as Executing Agency will assume regarding certain financial aspects of the Project are set forth in Annex A of the Project Document. Donor countries and institutions, of which we hope you will be one, can give effect to their commitment by executing a letter to UNDP substantially similar to the suggested model provided as schedule I of Annex A.

As Chairman of the Private Sector Task Force of the Caribbean Group for Co-operation in Economic Development, which was the genesis of the Project Development Facility to be created under this project, I am personally strongly persuaded that it will meet an important need in the region. I therefore very much look forward to the active participation of your agency in supporting this venture both financially and technically.

Yours sincerely,

G. A. Brown

G. Arthur Brown
Deputy Administrator

0024890

Mr. M. Peter McPherson
Administrator
US Agency for International Development
320 21st Street, Washington D.C. 20523

5/26

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(3) 5/21

UNITED NATIONS DEVELOPMENT PROGRAMME

Regional Project of the Caribbean Region

PROJECT DOCUMENT

Title	Caribbean Project Development Facility
Number	RLA/81/010/A/01/42 Duration: 42 months
Primary Function	Project Identification and Preparation
Secondary Function	Institution Building
Sector	Private and Public Enterprise Sectors
Government Implementing Agencies	National agencies responsible for the encouragement and creation of new or expanded income-generating enterprises.
Executing Agency	World Bank/International Finance Corporation (IFC)
Cooperating Regional Agencies	Caribbean Development Bank (CDB); Inter-American Development Bank (IDB); Caribbean Community and Common Market (CARICOM).
Estimated Starting Date	July 1st, 1981
UNDP Input	U.S. Dollars ________
Executing Agency Input (in kind)	U.S. Dollars 928,000
Cooperating Regional Agency Inputs	CDB US$100,000 IDB US$____

Signed: ______________________________, Date: __________
on behalf of the Executing Agency

Signed: ______________________________, Date: __________
on behalf of the United Nations Development Programme

Signed: ______________________________, Date: __________
on behalf of the Caribbean Development Bank

Signed: ______________________________, Date: __________
on behalf of the Inter-American Development Bank

Signed: ______________________________, Date: __________
on behalf of the Caribbean Community and Common Market

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OTHER ANNEXES

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I. LEGAL CONTEXT

1.1. It is expected that aside from the international organizations listed in the cover of this Project Document, several countries and international organizations will make grant contributions towards meeting the cost of the project. Their relationships with the UNDP and the Executing Agency will be governed by the Project Document and the Memorandum of Agreement set forth as Annex A hereto.

1.2. The countries listed in (a) and (b) below are expected to participate to the extent that the project is concerned with the development of their territories and/or that activities related to the project are carried out in their territories. Their relationship with the UNDP and the Executing Agencies will be governed by the Project Document and the documents listed below:

(a) This Project Document shall be the instrument (therein referred to as the Plan of Operation) envisaged in Article 1, paragraph 2 of the Agreements between the United Nations Special Fund and each of the countries listed below, which was entered into on the dates set opposite their respective names. For these states, who have not signed the new basic agreement with the UNDP, the legal framework for this project is set forth in Part V of this Project Document.

Country	Date of Signature
Antigua*	January 7, 1960
Belize*	January 7, 1960
Montserrat*	January 7, 1960
Netherlands Antilles**	February 27, 1964
St. Kitts-Nevis*	January 7, 1960
St. Lucia*	January 7, 1960
St. Vincent and the Grenadines*	January 7, 1960
Cayman Islands*	January 7, 1960
Turks & Caicos Islands*	January 7, 1960
British Virgin Islands*	January 7, 1960

* Agreement signed by the United Kingdom and UNDP.
** Agreement signed by the Netherlands and UNDP.

(b) This Project Document shall be the instrument envisaged in Article 1, paragraph 1, of the Standard Basic Assistance Agreement between the UNDP and each of the countries listed below, who entered into the aforementioned agreements on the dates set opposite their respective names. For the purposes of the Standard Basic Agreement entered into by each country, reference to the respective Government Implementing Agency shall be deemed to be a reference to the Government Cooperating Agency described in that Agreement.

Country	Date of Signature
The Bahamas	January 12, 1974
Barbados	October 21, 1974
Dominica	November 5, 1980
Dominican Republic	June 11, 1974
Grenada	May 17, 1976
Guyana	May 3, 1977
Haiti	June 28, 1973
Jamaica	January 26, 1976
Suriname	April 29, 1978
Trinidad and Tobago	May 20, 1976

Government Adherence

1.3 Each Government shall signify its adherence to this Project Document by letter addressed to the UNDP, at its Headquarters, with a copy to the Resident Representative responsible for UNDP activities in the relevant Government's country and to the Executing Agency, whereupon such Government shall be deemed a party to this Project Document as fully as if it had signed the Project Document directly, as of the latest of the dates appearing on the cover page hereto.

II. THE PROJECT

A. Development Objectives

2.1 The underlying objectives of the project are to speed development of productive enterprises, both public and private, in participating states, as a means of generating productive employment; improving participating states' balance of payments through expanded exports of goods and services; and bringing about self-sustaining growth and development through the creation of strong

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medium-sized and smaller enterprises and strengthening entrepreneurial traditions.

B. Immediate Objectives

1. Accelerate investment in, and assure greater productivity and profitability of smaller-scale enterprises by providing technical assistance to project sponsors (entrepeneurs) at the project design stage;

2. Assist project sponsors, with the approval of the government of the concerned participating country, in obtaining equity and loan finance for soundly designed enterprise projects;

3. Assist project sponsors to identify appropriate technology, key personnel, foreign technical partners, and export markets as needed for prospective productive undertakings;

4. Assist prospective project sponsors in locating affordable sources of technical assistance for market surveys, feasibility studies, costing, accounting, financial management, and other business services critical to the establishment or operation of sound business ventures;

5. Be a focal point, or clearing house, of information on sources of pre-project technical assistance;

6. Advise governments of participating states on an ad hoc basis concerning fiscal, regulatory, pricing or trade policies as they impinge on the viability of prospective enterprise ventures;

7. Assist governments and prospective enterprise sponsors in participating states in the dissemination abroad of information useful to prospective foreign investors.

C. Special Considerations

2.2 Aside from assistance to individual project sponsors in designing and developing individual projects, the executing agency and the project staff will try to encourage development of small and medium enterprises on a broad scale through emulation of exemplary projects and practices.

D. Background and Justification

2.3 The seventeen Caribbean States[1/] who participate in the Caribbean Group for Cooperation in Economic Development (CGCED), which is the regional aid-coordinating body chaired by the World Bank (and which includes other sponsoring institutions such as IMF, IDB, UNDP and CDB), cover a fairly wide range in terms of size, resource endowment, and level of development (see table at Annex B). They also differ from one another in the relative importance they attach to private as compared to public investment in their respective development strategies and, within the scope of private investment, in the importance they attach to foreign as compared to domestic investment.

2.4 Nevertheless, all states of the group maintain that, within the scope of their respective national policies, they welcome private investment, and indeed all of them have provided incentives of one kind or another -- fiscal, trade, technical assistance, etc. -- aimed at encouraging private investment. In fact, there is a growing recognition among the Caribbean States that their development and employment objectives are not likely to be met within an acceptable time frame without a larger contribution from private investment that most of them have been getting. The magnitude of the income and employment gaps, together with growing balance of payments problems and limitations on multilateral and bilateral development aid, point to a need for greater investment in productive enterprises, especially export-oriented enterprises, as a matter of some urgency.

2.5 The present project stems directly from one of the recommendations of the Task Force on Private Sector Activities

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1/ Antigua, the Bahamas, Barbados, Belize, Dominica, Dominican Republic, Grenada, Guyana, Haiti, Jamaica, Montserrat, Netherlands Antilles, St. Kitts-Nevis, St. Lucia, St. Vincent, Suriname and Trinidad and Tobago. Unless otherwise specified, phrases in the text like "Caribbean States" refer to this group. The CARICOM states are all the above except the Bahamas, Dominican Republic, Haiti, the Netherlands Antilles, and Suriname. The "LDCs" are the smaller states in CARICOM (Antigua, Belize, Dominica, Grenada, Montserrat, St. Kitts-Nevis, St. Lucia, St. Vincent), while the Eastern Caribbean Common Market (ECCM) includes all LDCs minus Belize.

established in 1979 by CGCED to examine and report on obstacles to private sector development in the region. The report of the Task Force,[1] whose activities were financed by UNDP and CDB under the Regional Project RLA/79/075, asserted that there were significant untapped investment opportunities in all the states of the region, and it made a series of recommendations to encourage greater private investment, including the Facility proposed here.

2.6 The recommendation for a project identification and development facility was made in the context of the Task Force's examination of the adequacy of existing financial facilities, in relation to the question of whether or not there was a "financing gap" for private sector projects. The Task Force pointed out that, by comparison with many developing countries, the Caribbean region has a strong commercial banking sector. There are many commercial banks even in the smaller countries, and most of them have been long established and have good international connections which can be drawn on for funds if needed.

2.7 In addition to the commercial banks, development banks or finance companies (DFCs) exist in most countries of the region, and there are also a number of official international institutions that can supply loans or equity capital, directly or indirectly (i.e., through the DFCs) to the private sector, such as the Caribbean Development Bank (CDB), the International Finance Corporation (IFC), and the Venezuela Trust Fund (VTF) administered through the Inter-American Development Bank (IDB). A number of bilateral official agencies also deal directly with the private sector, such as the Netherlands Finance Company for Developing Countries (FMO), the Commonwealth Development Finance Company (CDFC), and the Overseas Private Investment Corporation (OPIC). Finally, the World Bank, the IDB, the European Investment Bank (EIB) and a number of bilateral donors make or can make funds available to local DFCs or to the CDB for onlending to the private sector.

2.8 There thus appears to be an ample number of financial institutions and multiple sources of funds for financing private

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1/ Measures to Promote the Role of the Private Sector in Caribbean Development, a Report to the Caribbean Group for Cooperation in Economic Development by the Task Force on Private Sector Activities, Washington, D.C. June, 1980.

enterprise, and commercial as well as development lenders, both domestic and international, are virtually unanimous in asserting that adequate financing is available for sound "bankable" projects. At the same time, would-be business borrowers claim they cannot find adequate financing for their projects.

2.9 In the view of the Private Sector Task Force, this apparent paradox can be reconciled by the fact, frequently observed, that many project proposals which are not initially bankable become so when it is possible to assist borrowers in such matters as the financial structuring of their projects, technical engineering studies, identification of prospective suppliers and markets, and the determination of key personnel staffing requirements.

2.10 Commercial banks rarely have the personnel or the financial incentives (i.e. some way of recouping costs) to provide very much of this pre-project technical assistance, and the same is true of most of the DFCs. CDB's technical staff is presently fully occupied in appraising projects which have already been developed to the loan application stage, and are too few in number to provide much assistance to borrowers at earlier stages of project preparation. CDB does have funds, however, to finance more projects if they could be identified and properly prepared.

2.11 IFC, the World Bank affiliate wholly specialized in private sector development, has intensified its efforts in the Caribbean in recent years, and is prepared to help develop and finance projects in the Caribbean of a smaller size than is typical of its general operations. However, project preparation of the kind that IFC does is very expensive and IFC can afford to assist the smaller projects that are characteristic of the region only in the context of a portfolio that also contains considerably larger projects, which poses some constraint on IFC's operations in the Caribbean.

2.12 The Task Force thus found it misleading to speak of "financing gaps" with regard to large and medium-scale investment projects when the main bottleneck appears to be project identification and preparation rather than the supply of finance <u>per se</u>. This shows up as a shortage of promising projects in the private sector, and the Task Force argued that with more adequate project identification and development, more financing would be forthcoming from existing financial institutions.

2.13 The Task Force's specific recommendation, which the present project has been designed to implement, was as follows:

> "The Task Force believes that a significant number of medium-sized private sector development projects (i.e., total investment costs of US$500,000 to about US$4-5 million) could be made ready for financing if there were facilities for project identification and development similar to those available through IFC for larger projects."

2.14 It should be noted in passing that the Task Force felt that a similar need for assistance in project preparation also existed, especially in the LDCs, for even smaller sized projects than the US$500,000 suggested as the lower cut-off point for the Facility proposed here. In fact, the Task Force was less certain in the case of smaller sized projects, that existing institutions were adequate to the financing needs. However, the Task Force argued that the special problems of small enterprises cannot efficiently be dealt with directly by international agencies, and they recommended instead a series of measures to be implemented at national rather than international levels.

E. <u>Outputs</u>

2.15 The central purpose of the proposed Facility is to increase the supply of investment projects worthy of consideration for financing by prospective lenders and investors, public or private. Such lenders and investors may be within or outside the region, and include international and regional development finance institutions; bilateral agencies in donor countries with facilities for private sector development finance; national development finance companies (DFCs) in the region; and private financial institutions.

2.16 The Private Sector Task Force recommended a Facility that would serve all participating states of the Caribbean Group for Cooperation in Economic Development. About half this group are very small states (population of 120,000 or less) where enterprises in the foreseeable future are likely to be extremely small, with promotional requirements different in kind from those in larger and more economically advanced countries like the Dominican Republic and Jamaica.

2.17 Partly because of this diversity, it is not possible to know in advance precisely what mix of promotional activities will

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best lead to an increase in the supply of bankable projects in different countries, nor to provide assurance that the supply of projects can be increased in all parts of the region by activities whose costs are within acceptable bounds. For this reason, the proposed Facility will be established on an experimental basis, with an initial mandate that will expire in three-and-one-half years. Results will be carefully monitored on an ongoing basis, and flexibility maintained to permit reorienting the Facility's activities even before the termination of the mandate if experience proves that to be desirable.

2.18 The financing, as well as the ownership, of projects developed by the Facility will be determined on a case-by-case basis. The objectives of the Facility may be achieved, directly or indirectly, by projects that fall anywhere in the broad spectrum of ownership from public to private. Most countries of the region look primarily to the private sector for the ownership, management, risk assumption, and expansion of smaller-scale enterprises. However, publicly-owned or joint public-private enterprises are not excluded from the scope of the Facility's assistance, provided comparable standards of economic viability and efficiency are applied.

2.19 The new Facility is based on the premise that there is a significant potential for development of worthy projects in the size range of US$500,000 to US$4-5 million. Existing financial institutions operate under constraints which make difficult the promotion and appraisal of projects of such modest size. Therefore the Facility will be grant-funded in order to enable it to focus its attention largely in this range, although projects of even smaller size will not be automatically excluded from consideration depending on their complexity and the availability of staff resources at a particular time.

2.20 Given the nature of the Caribbean economies, it is expected that a majority of sound projects will be export-oriented. In many cases, such orientation may point towards foreign investors playing an important role, and having a significant participation, subject of course to each country's policies towards foreign investment. However, the longer-run developmental objective of fostering local entrepreneurship and the development of a strong local private sector argue for the largest possible role for local owners and investors whenever possible, and the Facility will approach each project with those objectives in mind.

2.21 The lenders and investors to whom projects prepared by the Facility are presented for financing will in varying degree employ independent means of project appraisal. Each financial institution has its own investment criteria, and its own notions of acceptable risk, both of which will require further appraisal of proposed projects. This is bound to result in some overlap and duplication between the pre-appraisal work of the Facility and the subsequent appraisal by lenders and investors. In spite of this duplication, the Facility is expected to reduce the overall project development costs of lenders and investors in two ways. First, because the project "fundamentals" will have been carefully preappraised before a project is offered to financial institutions, the institutions should be able to save effort and cost at the earlier stages of project appraisal. Second, the Facility should save financial institutions some of the costs they would otherwise incur on false starts if they were trying to build a portfolio of appraisal projects without the help of this Facility. For example, it is a common experience in project finance institutions that for every project eventually financed, there are eight to ten other project ideas that are examined by staff before being dropped. Thus, the Facility can reduce project promotion and development costs to financing institutions through a "screening" function -- that is, by referring to financial institutions only projects which have a high probability of passing their formal appraisal tests.

2.22 As a corollary of the foregoing, familiarity on the part of the Facility's staff with the preferences, practices, and standards of financial institutions will be an important consideration in deciding to which projects to assign priority. This last in turn implies the desirability of informal interaction between the Facility staff and staff of the prospective financing institutions starting early in the life of each project pre-appraisal. This process will become increasingly productive as the main lending and investing institutions develop confidence in the work of the Facility.

2.23 In spite of these close informal relations, referral of a project for financing should be a formal step on the Facility's part, not an automatic or casual undertaking. This step will be reserved for the small minority (perhaps as few as 10%) of the project ideas that turn out on examination to be truly meritorious. The percentage of referred projects that actually receive financing would thus be an appropriate numeraire in evaluating the success of the Facility.

2.24 Using a combination of statistical and judgemental estimates based mainly on experience of development finance institutions, the volume of work-flow that might be expected from the Facility of the proposed size and character is roughly estimated as follows: once it reaches full operation, the Facility should be giving at least cursory examination to somewhere between 60 and 120 project ideas per year. Of these, perhaps 20% -- between 12 and 25 projects -- would warrant detailed promotional development. In turn, an estimated 7 to 15 projects per year should be meritorious enough to be referred to financial institutions, and perhaps 5 to 10 per year actually financed.

2.25 In addition to the main outputs just described, a portion of the Facility's resources will also be dedicated to the activities mentioned in sub-paragraphs B.4, B.5 and B.7 of paragraph 2.1 of Section II above, namely, directing prospective sponsors to alternative sources of technical assistance; serving as a clearing house of information on sources of such assistance; and advising on the dissemination of information for prospective foreign investors.

F. Activities and Modus Operandi

2.26 Staff of the Facility will be based initially in the offices of the World Bank Group to facilitate access to the information and experience in Caribbean matters available there and elsewhere in Washington. If the experiment proves sufficiently successful to warrant its continuation on a more permanent basis following the trial period, serious consideration will be given to relocating it to a Caribbean site.

2.27 The proposed Facility will conduct a number of interrelated activities which, although they shade off into one another, can be categorized roughly as "project identification," "project creation," and "project development." The first and third are comparable in many ways with the "pre-appraisal" activities that development finance institutions undertake in order to build an inventory of appraisable projects. The second is a less conventional activity for which there are fewer counterparts at present, but which may be particularly needed in the smaller less developed countries.

2.28 The Facility's "project identification" work will entail both passive and more active discovery of existing project ideas, including for each project: (a) a project sponsor in the form of a serious and reputable entrepreneur or company with access to at least some of the required risk capital; (b) an indication that the government of the host country actively favors the project and finds it consistent with its development objectives; and (c) a tentative indication of technical, financial, and economic feasibility.

2.29 The experience of financial institutions generally is that most project ideas initially come to the institutions as a result of its reputation, and its established network of contacts in business, banking, and government circles. Institutional initiatives to develop new project ideas through promotional field work tend to be expensive and while financially viable for larger projects, can be undertaken by financial institutions for smaller projects only on a limited basis. An important part of the Facility's project identification work will depend upon networks of contacts which it will need to establish throughout the region as an early priority activity. It is assumed that there will be a free flow of preliminary project ideas between the new Facility and other existing institutions in order to avoid duplication of promotional efforts and to expand each institution's range of information and contacts. For example, the CDB is particularly well placed to help identify prospective projects for the Facility to work on, and it is expected to provide regular and systematic input into the Facility's project identification work, as well as becoming a potential customer for the Facility's output of bankable projects.

2.30 In some instances, the Facility may find that established information channels and trade and sectoral data do not yield sufficiently numerous and/or high quality project ideas. In such cases, the Facility will seek to create project possibilities by other routes. It will, from the outset, inventory and review the extensive sectoral and industrial analyses available to it from existing institutions, including the World Bank Group, IDB, CDB, UNIDO, ITC and others. These analyses of comparative advantage, development objectives, and industrial strategies will provide a basis for the Facility staff to develop a promotional strategy for each country which will in turn be narrowed down to lists of specific project possibilities. Where field review confirms the relevance and practicality of such possibilities, the Facility will attempt to identify potential sponsors, local and foreign, to undertake project development.

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2.31 In terms of professional man-years of effort, a major part of the work of the Facility will go into the development of projects after they are identified or created. This project development work will typically involve assistance in overcoming one or another critical gap that may be uncovered during the pre-appraisal process, such as lining up suppliers; negotiating needed changes in government trade, price, tax or regulatory activities that affect profitability; market appraisal and advice; modifying process techology; identifying key technical or managerial staff; locating additional sources of finance where necessary; etc. In the process, the initial project will often have to be modified, perhaps in major ways in some cases. Such project modification and assistance during preappraisal process, including some of the responsibilities ordinarily left to the entrepreneur in developed countries, is appropriate and often essential in the context of a developing country.

2.32 Preparation of a project by the Facility will require inter alia the preparation of a preliminary financial plan demonstrating project viability. Projects prepared by the Facility can frequently be expected to require injection of additional equity as well as loan funds. When the Facility encounters a problem of this kind in an otherwise attractive project, it may be able to suggest possible additional equity partners.

2.33 Knowledgeable regional observers feel that, at least in the smaller and less developed countries, the operative bottleneck is apt to be a shortage of entrepreneurial experience in bringing projects to the point where traditional project development as described above can begin. For that reason, it is proposed that the Facility also be prepared to arrange a certain amount of help to prospective sponsors in getting technical assistance at an earlier, "pre-project" stage. The need will of course vary from case to case, but might include such things as accounting, costing, marketing, personnel management, energy conservation, inventory control, financial management, process technology, and feasibility analyses.

2.34 The Facility will not be able to provide very much pre-project technical assistance of this kind from its own resources. Rather, it should plan to point smaller- and medium-sized entrepreneurs towards inexpensive sources of the required expertise. For example, several bilateral and multilateral development agencies have funds dedicated to "feasibility studies." Some of the countries (notably Barbados, Trinidad,

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Jamaica and the Dominican Republic) have government-supported technical institutes whose services are available at subsidized rates to small businesses. There are several organizations of retired North American or European businessmen available to provide advice and assistance to small businesses in developing countries. Finally, some of the bilateral or multilateral donors that already provide consulting funds for such services, or who contemplate providing them, may wish to make the Facility executing agent for some portion of these funds.

2.35 Because many, if not most, of the prospective projects the Facility will work on will entail export markets and/or imported technology, and since local sponsors' knowledge of such markets and technology and how to assess them is sometimes limited, the Facility will engage in a continuing effort to develop a network of contacts among potential technical partners and potential importers in developed countries. Such contacts may also be a potential source of new project ideas.

2.36 The Facility's job will be somewhat easier in countries that have already prepared information and materials to acquaint potential foreign investors with the legal, economic, and institutional framework in which they would be operating, and to suggest to the foreign investment community some of the sectors and industries in which the host country possesses some comparative advantage. Most of the LDCs in the Eastern Caribbean presently lack professionally prepared materials on these matters, and in some cases lack even a means for responding accurately and quickly to investor inquiries. Some improvements along these lines would clearly be beneficial. Technical assistance to the LDCs in "country promotion" has recently been initiated by UNDP, IDB, and others, and there is also some private sector activity along these lines. It is not contemplated that the Facility would itself undertake such activities. However, it should become familiar with these efforts, and be in a position to suggest improvements where they are needed.

2.37 At the appropriate point in the development of each project, the Facility will engage the concerned national authorities, and, before seeking project financing, will obtain the official approval of the participating government. In the case of projects which have public sector involvement, this procedure will be part of an effort to secure official financing. The Facility may, where appropriate, help to advise on official government policy actions -- in regulatory, taxation, pricing, or other

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areas -- which may be necessary to the ultimate viability of the project.

G. Inputs

1. Personnel Component

2.38 The recommended staffing -- judged to be the minimum necessary to attain efficient operation -- is seven professionals. Of these, the desirable mix of functions is judged to be four investment officers, two engineers, and one chief executive officer. One of the engineers would preferably be a specialist in light industry, and the other in the agro-industrial field. There will also need to be a significant additional amount of consulting funds to procure more specialized services on an as-needed basis.

2.39 Because of the range of countries covered, it would be highly desirable for the language proficiencies represented among the staff to include at least French, Spanish and English.

Table 1: LANGUAGE PREVALENCE, REGIONAL STATES PARTICIPATING IN CARIBBEAN GROUP

First Language	Number of Countries	1979 Estimated Population ('000)
English	13	5,294
French	1	4,950
Spanish	1	5,260
Dutch	2	644

2.40 The manager, as well as a majority of the professional staff, will be selected on the basis of recent experience with either an international or national agency responsible for private sector investment project development. The work of the Facility is similar in some important respects to the promotional aspects of such agencies' work, and such experience should minimize the initial learning period for the staff of the new Facility. Second, such individuals will be able from the outset to develop smooth working relations between the Facility and institutions that will eventually be active customers for the Facility's project offerings. Part of the staff will be of Caribbean nationality, both because familiarity with the region will be an asset in identifying and developing projects, and in order to make a small contribution towards increasing over time the cadre of trained people available to staff local financial and development institutions.

2. Administrative Support Staff

2.41 There will be four secretarial-level appointments, including two bilingual secretaries and two who are able to perform simple research assignments in addition to more routine secretarial assignments.

3. Miscellaneous

2.42 The budget will also provide for costs of communications, representation, and other necessary expenditures.

4. Budget Summary

2.43 The annual budget for an operation of the size and character described above would be approximately $1.3 million in 1981 prices. However, since the Facility is to be physically located on World Bank premises during the initial years, Bank Group support for the Facility will take the form of provision of certain overheads, notably rent furniture, xerox copying and printing, and other Bank-furnished administrative and financial services. This reduces the annual cash budget requirement to $1.1 million (1981 prices).

2.44 It may be appropriate to try to recoup some costs through fees, perhaps through partial reimbursement from successful projects. However, the probable volume of business is unlikely to generate revenues that would cover more than a minor fraction of total costs, whether paid by the borrower or by lending institutions. This question, in any event, should be regarded as a policy issue for decision by participating donors, perhaps after the Facility has acquired some experience.

2.45 The nature of the Facility's mission dictates grant funding. It further suggests an experimental approach with careful reappraisal of benefits after a reasonable period. It is estimated that it will take about three years to get a fair test of benefits, and an additional six-month period for evaluation and arranging either a follow-up or the termination of the experiment, whichever is decided. It is therefore proposed to seek 3-1/2 year funding at the outset, or a total capitalization of $4.5 million, assuming an annual inflation factor of 12%, net of the World Bank Group's in-kind contributed overheads.

H. Work Plan

2.46 The assumed starting date is July 1, 1981. Recruitment will commence as soon as donor contributions totalling $2.0 million are in hand.

2.47 Initial activities, some of which will be undertaken by IFC before the planned July 1 starting date, will include:

(a) compilation, review, and evaluation of existing studies and other materials prepared by IBRD, IDB, CDB, ITC, CARICOM, national development authorities and others;

(b) establish a network of contacts with lenders, chambers of commerce, prominent businessmen, and others who may be sources of project ideas;

(c) assemble a roster of technical consultants available for short assignments;

(d) prepare an inventory of existing sources of pre-project technical assistance;

(e) draft operating guidelines and priority principles for guidance of professional effort;

(f) convene initial meeting of the Technical Advisory Committee;

(g) convene initial conference of donors; and

(h) prepare a short brochure to acquaint potential project sponsors, lenders and investors with the Facility's services.

More detailed work plans will be prepared after some of the key personnel have been appointed.

I. Framework for Participation of National and International Staff in the Project

2.48 IBRD/IFC will provide both logistical support and professional advice, especially during the start-up period, and IFC will be a potential lender/investor for some of the projects prepared by the Facility.

2.49 CDB, IDB and CARICOM will be sources of project ideas deriving both from their analytical work (country and sector studies) and their contacts in the region, and the first two of these will be potential lenders/investors for some of the project prepared by the Facility.

2.50 UNDP, IBRD and IFC will be sources of potential project ideas, and the former may also be a source of complementary technical assistance.

2.51 National development authorities and development finance companies (DFC's) in the region will be sources of project ideas as well as potential lenders/investors in Facility projects. National authorities will also be called on as appropriate to consider adjustments of fiscal, pricing, regulatory and other policies affecting viability of prospective projects, and will be asked to approve projects before they are presented to financial institutions for financing.

2.52 Contacts will be established and maintained with development assistance agencies as well as specialized private sector development finance agencies in donor countries (e.g. OPIC, CFC, FMO, DEG, SWEDEFUND, etc.) as potential sources of both project ideas and complementary pre-project technical assistance or cooperative assistance in project preparation.

2.53 During the period when the Promotion Facility will be under development, related efforts will be under way to develop new financial institutions in the region, and to strengthen existing ones. For example, CDB has indicated a determination to expand and strengthen its private sector lending arm; efforts are underway to either revive or design a successor to the now moribund Caribbean Investment Corporation (CIC); there are joint efforts by CDB and USAID to revitalize some of the DFCs in the smaller countries; and USAID is attempting to create a privately-owned investment bank that would operate in the Eastern Caribbean. Such developments, to the extent they are successful, will represent part of the demand for the output of the proposed Project Development Facility, and thus could have a bearing on the types of projects the Facility should be trying to identify and develop, as well as on the Facility's modus operandi.

J. Development Support Communication

2.54 An effort will be made to open and maintain regular lines of communication with institutions and individuals likely to be sources of project ideas, including, in addition to those agencies and institutions mentioned in Section I above, commercial banks, insurance companies, chambers of commerce, and individual firms and business leaders familiar with the region.

K. Institutional Framework

2.55 States eligible to participate in this project by notifying UNDP to this effect include twelve independent countries (the Bahamas, Barbados, Dominica, Dominican Republic, Grenada, Guyana, Haiti, Jamaica, St. Lucia, St. Vincent and the Grenadines, Suriname, and Trinidad and Tobago); four United Kingdom Associated States (Antigua, Belize, Montserrat and St. Kitts-Nevis); one Autonomous State of the Kingdom of the Netherlands (the Netherlands Antilles); and four United Kingdom dependent Territories (Anguilla, Cayman Islands, Turks and Caicos Islands and the British Virgin Islands).

2.56 Donor countries and institutions invited to contribute to the support of the Facility by executing the Memorandum of Agreement appearing in Annex A include all those who participate in the Caribbean Group.

2.57 IBRD/IFC will act as executing agency, and CDB, IDB, and CARICOM as Cooperating Regional Agencies.

2.58 There will be both an Advisory Committee and a Donor's Conference. The Advisory Committee will be convened once or twice a year for the purpose of obtaining periodic policy guidance including the identification of sectors and types of projects to which priority should be attached and will be comprised of representatives from agencies and institutions which are able to contribute perspective on overall development objectives, such as CDB, IBRD, UNDP, IFC, IDB, CARICOM and the Caribbean Private Sector.

2.59 The Donors Conference will be convened once at the outset and annually thereafter to discuss priorities, financial considerations, and the relationship between this Facility and other programs or institutions in the region that the donors support or contemplate supporting.

L. Prior Obligations and Prerequisites

2.60 The Facility will commence operations as soon as:

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(a) official memoranda of agreement have been executed with three donor countries or institutions and three states eligible to participate have indicated their interest in doing so to UNDP, and

(b) contributions totalling US$2.0 million are in hand.

M. Future UNDP Assistance

2.61 Possible assistance by UNDP or others beyond the three- and one-half year trial period is moot pending the outcome of the evaluation to be undertaken during the last six months of the trial period.

III. SCHEDULES OF MONITORING, EVALUATION AND REPORTS

A. Tripartite Monitoring Reviews; Technical Reviews

3.1 The project will be subject to periodic review in accordance with the policies and procedures established by UNDP for monitoring project and programme implementation.

3.2 Since the primary objective of the proposed Facility is to increase the supply of bankable projects, an appropriate measure of its performance will be the number of projects developed which eventually receive financing.

3.3 The Facility's success in securing financing for its projects will depend on a number of factors, of which the most important will be the inherent economic, financial and technical strength of the project itself. Of comparable importance will be the credibility and reputation of the Facility in the financial community. Thus, the Facility will from the outset have the burden of establishing a strong record for the bankability and general quality of its promotion efforts.

B. Evaluation

3.4 The project will be subject to evaluation, in accordance with the policies and procedures established for this purpose by UNDP. The organization, terms of reference and timing of the evaluation will be decided by consultation between the participating Governments, UNDP and the World Bank/IFC as Executing Agency.

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3.5 It will be noted that the entire project is in the nature of an experiment, to be continued, modified, or terminated after three-and-one-half years as indicated by a careful ex-post evaluation to take place during the last six months of the trial period.

3.6 There will be no certain way of measuring the "additionality" of the projects to be developed by the Facility. But the financial institutions to whom projects are presented, along with the Facility's sponsors, will be in a position to assess the Facility's usefulness over the trial period, as well as to provide, on a continuing basis, constructive advice for improving the quality and bankability of its output.

C. Progress and Terminal Reports

3.7 Progress reports on the projects will be prepared by the executing agency and submitted to UNDP and participating governments at six monthly intervals. Financial reports and a brief review of activities will be prepared in time for an annual meeting of the Donors' Conference. Annual financial audits will be available to donors on request. A Terminal Report, assessing the Facility's accomplishments and recommending either continuation, modification, or termination of the Facility will be prepared at the end of the 42-month trial period.

IV. PROJECT BUDGET COVERING THE UNDP CONTRIBUTION
(In US$)

Country: Caribbean Region
Project Number: RLA/81/010/A/01/42
Project Title: Caribbean Project Development Facility

		Total m/m	Total $	1981 m/m	1981 $	1982 m/m	1982 $	1983 m/m	1983 $	1984 m/m	1984 $
10.	Project Personnel										
11.01	Project Manager /a (a/k/a Chief Technical Adviser)	42	295,782	6	35,493	12	77,160	12	86,414	12	96,715
11.02	Engineer/Light Industry	42	295,778	6	35,492	12	77,157	12	86,414	12	96,715
11.03	Engineer Agro-Industries	42	295,778	6	35,492	12	77,157	12	86,414	12	96,715
11.04	Investment Officer I	42	295,778	6	35,492	12	77,157	12	86,414	12	96,715
11.05	Investment Officer II	42	295,778	6	35,492	12	77,157	12	86,414	12	96,715
11.06	Investment Officer III	42	295,778	6	35,492	12	77,157	12	86,414	12	96,715
11.07	Investment Officer IV	42	295,778	6	35,492	12	77,157	12	86,414	12	96,715
11.08	Short Term Consultants /b	105	1,146,500	15	137,500	30	299,000	30	335,000	30	375,000
11.09	Component Sub-total	399	3,216,950	57	385,945	114	839,102	114	939,898	114	1,052,005
13.	Administrative Support Personnel		463,550		55,650		121,200		135,200		151,500
15.	Expert Official Travel		450,800		54,000		117,600		131,700		147,500
16.	Mission Costs /c		145,700		17,500		38,000		42,500		47,700
19.	Component Total		4,277,000		513,095		1,115,902		1,249,298		1,398,705
50.	Miscellaneous Component										
53.	Sundry /d		207,000		24,900		53,900		60,400		67,800
59.	Component Total		207,000		24,900		53,900		60,400		67,800
99.	GRAND TOTAL /e		4,484,000		537,995		1,169,802		1,309,698		1,466,505

101. Participating Country Cost Sharing)
102. Development Bank Cost Sharing (IDB/CDB))
103-108 Cost Sharing from Bilateral and Other Sources) Should total line 99.
109. Total Cost Sharing)
999. Total UNDP)

/a Includes all costs (e.g. salary, benefits, transportation to and from duty station) except travel on official project business, which is covered on line 15.

/b Includes all fees and travel on official business.

/c Governing Board Travel.

/d Communications, representation, other.

/e Net of overhead, if any.

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V. WORLD BANK LEGAL ANNEX

The following provisions shall govern the relations between the UNDP, the Executing Agency and the governments listed in paragraph 1.2 (a) above, with respect to the Project.

General Provisions

5.1 For the purposes hereof, the term "Project" means the project defined in this Project Document, and the term "Government" means the government of each of the participating states listed above which have adhered to this Project Document in writing.

5.2 The Project will be financed as described in the Project Document and as further specified in the Memorandum of Agreement which is Annex A to the Project Document (hereinafter called the "Memorandum of Agreement").

5.3 Each of the Governments, the UNDP and the Executing Agency shall cooperate in the execution of the Project with a view to the realization of the objectives described in Part II of this Project Document.

5.4 From contributions provided through cost sharing by the donors, the UNDP undertakes to provide through the Executing Agency the expert services, training, equipment and other services and facilities required for the Project, within the funds available to the Project.

5.5 The Executing Agency shall carry out its obligations in consultation with the governments, the UNDP and the Donor Countries and Institutions, in accordance with the provisions to the Project Document.

Participation of the Government

5.6. (a) The Government shall facilitate clearance through its customs of any equipment, materials and supplies required for the purposes of the Project, and of personal effects of the non-national personnel assigned to the Project.

(b) In the event that the carrying out of the Project shall require, at the sole discretion of the Executing Agency, the import of any equipment into the territory of any of the Governments, the relevant Government shall exempt or defray any customs duties and other charges related to the clearance of project equipment, its transportation, handling, storage and related expenses within the country. It shall also be responsible for safe custody of the equipment, its installation, maintenance and insurance.

(c) The Government shall make arrangements for all non-national personnel assigned to the Project and their families promptly to be provided with any necessary entry and exit visas, residence permits, exchange permits and travel documents required for their stay in the territory of the Government in connection with the Project.

5.7. Subject to any security provisions in force at the date of the Project Document, the Government shall:

(a) make available to the Executing Agency for the purposes of the Project all published and unpublished reports, maps, records and other information and data which are necessary for the implementation of the Project; and

(b) enable authorized representatives of the UNDP, the Executing Agency and the staff and consultants retained by the Executing Agency to carry out the Project to visit any part of its territory for the purposes of the Project and to examine any records and documents relevant thereto.

5.8. The Government shall assist all the non-national personnel assigned to the Project in finding suitable housing accommodations at reasonable prices.

Participation of the UNDP and of the Executing Agency

5.9. The Executing Agency shall select a Project Manager in consultation with the UNDP and shall assign to the Project such Project Manager and other project personnel under contract with the Executing Agency.

5.10. The Project Manager shall be responsible for the carrying out of the obligations of the Executing Agency under the Project Document, shall supervise the personnel assigned to the Project, and shall be responsible for the management of all materials, equipment and facilities made available to the Executing Agency for the purposes of the Project.

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5.11. The Executing Agency may, in agreement with the UNDP, execute any part or all of the Project by subcontract. The selection and appointment of subcontractors shall be made in accordance with the Executing Agency's procedures for UNDP projects.

5.12. All material, equipment and supplies which are purchased from resources made available through the UNDP shall be used exclusively for the execution of the Project and shall remain the property of the UNDP (in whose name it will be held by the Executing Agency) until completion of the UNDP assistance to the Project. Equipment supplied by the UNDP shall be marked with the insigniae of the UNDP and of the Executing Agency.

5.13. The Executing Agency shall make payments for the actual costs of the Project components only to the extent that funds shall have been received by it in accordance with the provisions of the Memorandum of Agreement.

<u>The Basic Agreement</u>

5.14. Provisions applicable to the Governments listed in paragraph 1.2. (b) above:

(a) In accordance with the Agreement concluded by the UNDP (Special Fund) and the Government concerning the provision of assistance (the "Basic Agreement"), the UNDP, the Executing Agency and other United Nations organizations associated with the Project and their respective personnel shall be accorded the facilities, privileges and immunities specified in the Basic Agreement.

(b) The Project Document is the document (therein referred to as a Plan of Operation) provided for in paragraph 2 of Article I of the Basic Agreement. The Executing Agency, by its execution of the Project Document, accepts in relation to the Project the provisions of the Basic Agreement (subject as hereinafter mentioned) and accordingly the Government, the UNDP and the Executing Agency agree that such provisions shall be deemed incorporated in and to form part of the Project Document with the same force and effect as if such provisions were fully set forth herein, subject, however, to the provisions of sub-paragraph (c) hereof.

(c) For the purposes of the Project Document:

(i) paragraph 3 of Article II of the Basic Agreement shall not apply to arrangements of an administrative nature made by the Executing Agency in the ordinary course of supervising the Project in accordance with the Project Document; and

(ii) the terms "Special Fund" and "Plan of Operation" wherever they appear in the Basic Agreement shall be deemed to read "UNDP" and "Project Document", respectively.

Privileges and Immunities

5.15. The Government shall indemnify the Executing Agency and members of its staff for any liability arising out of acts or omissions of such staff members, performed (or omitted to perform) in its territory, in connection with the Project Document or the execution of the Project, except where resulting from wilfull misconduct or gross negligence. Such indemnification shall include, without limitation, attorneys' fees, court costs and other expenses incurred by the Executing Agency or members of its staff in connection with the defense against, or settlement of, claims on account of such liability.

5.16. The Government shall exempt all consultants retained by the Executing Agency and the personnel (other than residents of the territory of the Government) of such consultants from, or bear the cost of, any taxes, duties, fees or other levies imposed under laws and regulations in effect in its territories or by any political sub-division or agency therein on such consultants and personnel in respect of:

(i) any payment made to such consultants or personnel in connection with the execution of the Project;

(ii) any equipment, materials and supplies brought into the territory of the Government for the purpose of carrying out the Project and subsequently withdrawn therefrom; and

(iii) any personal and household effects brought into the territory of the Government by such consultants and personnel and subsequently withdrawn therefrom upon departure of the said consultants and personnel.

5.17 The Executing Agency shall provide the Government through the Resident Representative from time to time with the list of personnel to whom the privileges and immunities enumerated above shall apply.

5.18. The Project Document shall be free from any taxes imposed under the laws of the Government or laws in effect in its territory on or in connection with the execution, delivery or registration thereof.

Consultation

5.19. The Government, the UNDP and the Executing Agency shall exchange views on the Project, including its progress and the benefits derived therefrom, and shall furnish to each other such information thereon as they shall reasonably request each other in respect thereof, as provided in this Project Document and in the Memorandum of Agreement which is Annex A hereto, and otherwise through the periodical consultations established by the Caribbean Group for Cooperation in Economic Development.

Reports

5.20. The Executing Agency shall furnish to the UNDP periodical reports on the carrying out of the Project at such times and in such form as may be agreed between the UNDP and the Executing Agency.

Settlement of Disputes

5.21. (a) Any dispute between the Executing Agency on the one hand and the Government on the other arising out of or relating to the Project Document and which cannot be settled by negotiation or other agreed mode of settlement shall be treated as a dispute between the UNDP and the Government and shall be submitted to arbitration at the request of either the Executing Agency or the Government (in the case of a Government listed in paragraph 1.2. (b) hereto, in the manner set forth in Article IX of the Basic Agreement); provided however, that the foregoing provisions of this paragraph (a) shall not apply where the UNDP and the Executing Agency are agreed that the subject matter of such dispute results from the willful misconduct or gross negligence of members of the staff of the Executing Agency.

(b) Notwithstanding any termination of the Project Document pursuant to paragraph 5.23 hereof, the provisions of this paragraph shall continue in full force and effect in respect of any dispute arising either before or after termination, provide such dispute shall be submitted to arbitration within six months after the date of such termination.

Suspension: Termination Notices

5.22. (a) The UNDP shall be entitled by notice to the Government and the Executing Agency to suspend the assistance to be provided by it in accordance with the Project Document if any condition arises which interferes with or threatens to interfere with the successful completion of the Project or the accomplishment of the purposes thereof; the UNDP shall consult the Government and the Executing Agency before any such suspension; provided, however, that the UNDP may suspend its assistance with respect to one or more Governments, in which case the Executing Agency shall continue to carry out the Project with respect to the remaining Government(s).

(b) Any suspension pursuant to paragraph (a) of this Section shall continue until such time as the UNDP shall give notice to the Government and the Executing Agency that it is willing to resume such assistance.

5.23. (a) If any condition referred to in paragraph 5.22 (a) hereof shall continue for a period of fourteen days after notice thereof shall have been given by the UNDP to all the Governments and the Executing Agency, then at any time thereafter during the continuance of such condition the UNDP may by notice to all the Governments and the Executing Agency terminate this Project Document; the UNDP shall consult the Governments and the Executing Agency before giving such notice.

(b) The Project Document may be terminated by all the Governments, the UNDP or the Executing Agency by at least sixty days' prior notice to each of the others; the UNDP or the Executing Agency, as the case may be, shall consult each other before giving such notice.

5.24. Any notice or request required or permitted to be given or made under the Project Document shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall have been delivered by hand, mail, telex or cable to the party to which it is required to be given or made at such party's address specified in the Project Document, in the case of the UNDP and the Executing Agency, or the address specified in the

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letter by which the Government adheres to the Project Document, in the case of the Government; or at such other address as such party shall have designated by notice to the party giving such notice or making such request.

For the UNDP:

United Nations Development Programme
1 U.N. Plaza
New York, New York 10017

Alternate address for communications by cable:

UNDEVPRO
New York, N.Y.

For the Executing Agency:

International Bank for Reconstruction and Development/
International Finance Corporation
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Alternate address for communications by cable:

CORINTFIN
Washington, D.C.

Alternate address for communications by telex:

440098 - World Bank
248423 - World Bank
64145 - World Bank

ANNEX A

MEMORANDUM OF AGREEMENT

(Caribbean Project Development Facility)

Dated ____________________, 1981

ANNEX A

MEMORANDUM OF AGREEMENT

1. This Memorandum of Agreement sets forth the basis on which the Caribbean Project Development Facility (herein called the "Project") referred to in the Project Document Number RLA/81/010 of the United Nations Development Programme (herein called "UNDP"), to which this Memorandum is annexed, will be financed, and the obligations that the UNDP and the International Bank for Reconstruction and Development/International Finance Corporation as Executing Agency thereunder will assume regarding certain aspects of the Project financing.

2. The UNDP shall contribute to the Project such funds, services and facilities, and the Executing Agency shall contribute to it such services and facilities, as are set forth in the Project Document. Cash contributions by other parties will be made available and administered as provided below.

3. Countries and institutions wishing to do so (hereinafter called "Donors") are invited to make cash contributions in convertible currencies to assist in meeting the cost of the Project. Each Donor shall give notice in writing to the UNDP, with copy to the Executing Agency, substantially in the form set forth in Schedule 1 hereto, of its determination to make a cash contribution.

4. The UNDP shall, upon written notice from not less than three Donors of their determination to make contributions aggregating not less than US$2 million, declare this Memorandum effective and shall give written cable or telex notice thereof to all the Donors and the Executing Agency.

5. The contributions of the Donors on account of whose written notice such declaration is made shall be made in accordance with the schedule of payments indicated for each donor in the notice of determination described in para. 3. These schedules of payments will be incorporated in the budget of the UNDP Project Document.

6. Payments may be made in United States dollars directly into the UNDP Contributions Account Number 015-002284 at the Chemical Bank, UN Branch, New York, New York 10017, indicating when doing so the UNDP project number RLA/81/010. Payments made in convertible currencies other than US dollars will be converted at the UN exchange rate on the day payment is received by the UN either in New York or at a UN account in the donor country.

7. If and to the extent that the Executing Agency shall charge entrepreneurs or financial institutions for services rendered to them under the Project, as described in the Project Document, all monies received on account thereof shall be deposited in the above-mentioned account at the Chemical Bank, noting when doing so the UNDP project number RLA/81/010.

8. The Executing Agency shall furnish to the Donors and the UNDP an annual report on the progress and cost of the Project and the utilization of the funds transferred to it by UNDP.

9. Any monies unutilized upon termination of the Project shall be remitted by the UNDP to the Donors, pro rata in proportion to their respective contributions credited to the Sub-Account.

SCHEDULE 1

Notice of Determination to Make a Cash Contribution

(date)

UNDP

Gentlemen:

Reference: Caribbean Project Development Facility

I am pleased to inform you that the [Government of ________ or Name of Institution] has determined to provide you with US$____________ for purposes of the project identified in the Project Document Number RLA/81/010 of the United Nations Development Programme, for which IBRD/IFC is the Executing Agency. This commitment is to take effect on ____(date)____ and will remain in effect until December 31, 1984. Payment will be made [according to the attached Schedule, and/or, in the following fashion.] It is understood that you will administer such funds in accordance with the provisions of the Memorandum of Agreement which is Annex A to the said Project Document.

Sincerely,

GOVERNMENT OF ______________________________

By: ______________________________

ANNEX B

CARIBBEAN COUNTRIES

SIZE AND INCOME

Countries	Area (Km^2)	Population a/ (000')	Population Density a/ (inh/Km^2)	GDP b/ (Million US$)	GDP Per capita b/ (US$)	Annual Growth in Real GDP 1975-78	Annual Growth in Real GDP 1979 c/
Bahamas	13,939	226	17	677	2,620	7.0% d/	8.0% d/
Dominican Republic	48,443	5,260	109	4,785	933	4.9%	5.0% c/
Haiti	27,749	4,950	178	1,308	271	5.0%	1.8%
Netherlands Antilles	961	253	263	864	3,472	5.2%	N.A.
Suriname	163,800	391	2	838	2,110	0.5% (e)	N.A.
CARICOM							
MDC's							
Barbados	430	260	605	509	1,940	4.1%	5.0%
Guyana	215,000	830	4	479	550	-1.0%	-4.3%
Jamaica	11,424	2,130	186	2,509	1,110	-3.6%	-1.0%
Trinidad and Tobago	5,128	1,140	222	3,851	3,403	5.8%	1.0%
LDC's							
Belize	22,965	136	7	120	886	4.9%	3.3%
ECCM							
St. Kitts-Nevis	396	60	152	35	660	2.0% c/	2.0%
Antigua	443	75	169	74	950	0.7%	0.0%
Montserrat	104	14	135	10	970	0.0%	5.2%
Dominica	790	82	104	38	440	3.8%	-17.0%
St. Lucia	616	120	195	87	630	13.1%	-0.6%
St. Vincent	388	111	286	46	436	8.8%	-0.6%
Grenada	344	110	320	62	530	6.5%	1.9%

a/ 1979 estimates
b/ 1978 current prices.
c/ Preliminary.
d/ Rough estimates by IMF in the absence of national accounts.
N.A.= Not available
e) 1974-78

SOURCES: World Bank and IMF

CARIBBEAN COUNTRIES

PUBLIC AND PRIVATE SECTOR COMPARATIVE STATISTICS
(1978 shares)

	GROSS FIXED INVESTMENT % of GDP		SAVINGS % GDP		GOVERNMENT REVENUE % GDP	CONSUMPTION % GDP		OUTSTANDING BANK CREDIT % GDP b/	
	Public	Private	National	Public Sector a/		Public Sector	Private Sector	Public Sector	Private Sector
Bahamas	4.8 c/	10.2 c/	17.6 c/	4.5 c/	24.3 c/	19.5 c/	49.0 c/	14.6	45.7
Dominican Republic	7.1	12.5	N.A.	4.1	13.2	5.1	79.1	8.6 g/	28.8 g/
Haiti	8.0	4.4	3.7 d/	N.A.	33.6	11.2	88.7	10.0 e/	11.9 a/
Netherlands Antilles	4.6	7.7	9.1	-3.2	37.6	25.5	54.8	8.5	39.4
Suriname	8.3	12.4	15.9	2.0	27.5	22.2	60.0	3.4	25.3
CARICOM									
MDC's									
Barbados	5.5	18.7	21.1	5.4	30.6	16.9	71.6	7.3	38.2
Guyana	17.2	3.8	13.6	5.5	41.1	23.8	56.4	52.2	9.6
Jamaica	5.5	9.3	9.3	2.3	28.2	21.3	66.9	22.7	13.8
Trinidad and Tobago	19.1	10.2	31.5	N.A.	33.8	11.7	54.4	-35.6	24.5
LDC's									
Belize	16.8	11.7	12.4	4.0	23.0	16.0	71.4	8.8	36.0
ECCM									
St. Kitts-Nevis	14.6	3.7	1.3	4.1	36.2	29.1	75.9	15.4	43.7
Antigua	6.2	10.4	6.7	-0.9	19.9	20.9	79.0	18.0	41.8
Montserrat	7.9	47.6	11.5	2.8	28.5	27.4	74.6	-3.9	42.5
Dominica	14.1	6.7	7.8	1.3	31.5	37.2	64.8	11.2	47.1
St. Lucia	7.1	52.1	30.8	3.7	24.9	19.0	59.5	5.1	50.4 f/
St. Vincent	6.2	10.6	8.9	0.0	28.8	31.0	78.6	7.4	52.6
Grenada	2.4	4.5	1.4	-4.6	27.2	27.4	77.4	13.7	35.9

a/ Current account surpluses.
b/ End 1978 figures, divided by 1978 GDP at market prices.
c/ Rough estimates by IBRD in the absence of national accounts.
d/ 1977.
e/ Mid-1978 figures.
f/ Includes public sector enterprises.
g/ Includes credit extended by non-bank financial institutions.
N.A.= Not available

SOURCES: World Bank and IMF

ANNEX C