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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

CARIBBEAN REGIONAL

PROJECT PAPER

EMPLOYMENT INVESTMENT PROMOTION II

AID/LAC/P-019

Project Number 538-0018

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT PAPER FACESHEET

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10. ESTIMATED COSTS ($000 OR EQUIVALENT $1 –)

A. FUNDING SOURCE	FIRST FY B. FX	FIRST FY C. L/C	FIRST FY D. TOTAL	LIFE OF PROJECT E. FX	LIFE OF PROJECT F. L/C	LIFE OF PROJECT G. TOTAL
AID APPROPRIATED TOTAL	3950	4700	8650	4200	5600	9800
(GRANT)	(50)	(200)	(250)	(300)	(1100)	(1400)
(LOAN)	(3900)	(4500)	(8400)	(3900)	(4500)	(8400)
OTHER U.S. 1.						
OTHER U.S. 2.						
HOST COUNTRY CDB		90	90		510	510
OTHER DONOR(S)		330	330		2050	2050
TOTALS	3950	5120	9070	4200	8160	12360

11. PROPOSED BUDGET APPROPRIATED FUNDS ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	PRIMARY TECH. CODE C. GRANT	PRIMARY TECH. CODE D. LOAN	E. 1ST FY 79 F. GRANT	E. 1ST FY 79 G. LOAN	H. 2ND FY 80 I. GRANT	H. 2ND FY 80 J. LOAN	K. 3RD FY 81 L. GRANT	K. 3RD FY 81 M. LOAN
(1) SD	700-R	810	830	250	8400	400		400	
(2)									
(3)									
(4)									
			TOTALS	250	8400	400		400	

A. APPROPRIATION	N. 4TH FY 82 O. GRANT	N. 4TH FY 82 P. LOAN	Q. 5TH FY __ R. GRANT	Q. 5TH FY __ S. LOAN	LIFE OF PROJECT T. GRANT	LIFE OF PROJECT U. LOAN
(1) SD	350				1400	8400
(2)						
(3)						
(4)						
TOTALS	350				1400	8400

12. IN-DEPTH EVALUATION SCHEDULED: MM YY 12 80

13. DATA CHANGE INDICATOR. WERE CHANGES MADE IN THE PID FACESHEET DATA, BLOCKS 12, 13, 14, OR 15 OR IN PRP FACESHEET DATA, BLOCK 12? IF YES, ATTACH CHANGED PID FACESHEET.

1 (1 = NO, 2 = YES)

14. ORIGINATING OFFICE CLEARANCE

SIGNATURE: William B. Wheeler

TITLE: AID Representative

DATE SIGNED: MM DD YY 06 03 79

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EMPLOYMENT/INVESTMENT PROMOTION

PROJECT PAPER

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PART I. SUMMARY AND RECOMMENDATIONS

A. RECOMMENDATIONS

The AID Regional Development Office/Caribbean (RDO/C) recommends authorization of a loan of $8,400,000 and a grant for $1,400,000 to develop and expand small and medium enterprises and industrial estates in participating CDB Member Countries. Both the loan and grant will be funded in FY 79 under the SDA appropriation category. The loan term will be forty years with 10 years grace, with interest of 2% during the grace period and 3% thereafter.

B. BORROWER/GRANTEE

The Borrower/Grantee and primary executing agency will be the Caribbean Development Bank (CDB). The CDB is a regional development finance institution, established in 1970, for the purpose of promoting the development and integration of its borrowing member governments with special emphasis on its less developed member countries. The participating members for this project are the Lesser Developed Countries (LDC's) - St. Vincent, St. Lucia, Dominica, Antigua, St. Kitts/Nevis/Anguilla, Grenada, Belize, Montserrat, British Virgin Islands, Cayman Islands, and Turks and Caicos Islands, and the More Developed Countries (MDC's) - Barbados, Guyana and Jamaica. 1/

C. DESCRIPTION OF PROJECT

The goal of this Project is to increase employment and increase the income of the poor in the English-speaking Caribbean Region (the "Region"). The purpose of the Project is to stimulate the investment in small and medium businesses necessary to increase production and employment in the region.

The Project will provide medium and long term credits to Caribbean small and medium industry and for industrial estates. Project activities will consist of:

- Direct lending by the CDB for industrial enterprises and industrial estates (AID Loan Funds).
- On-lending to small and medium business enterprises through financial intermediaries (AID Loan Funds).
- Technical Assistance (AID Grant Funds).

1. Direct Lending

Approximately $4.5 million of the proposed loan funds will be utilized for direct lending activities over the four-year period beginning in the Fall, 1979. The CDB will relend AID funds for industrial estate development and for expansion of the manufacturing, construction and service sectors. Loan funds will finance equipment, construction and working capital.

1/ - Jamaica is considered eligible for loan funds for on-lending through intermediaries only to the extent that it can be determined that the funds provided in the World Bank Loan to small scale enterprise development are insufficient.

2. On-Lending Via Financial Intermediaries

Approximately $3.9 million of loan funds will be on-lent by Development Finance Corporation (DFC's) and commercial banking institutions to small and medium business enterprises. Loan funds will finance the local and foreign exchange costs including working capital for a wide variety of manufacturing and service enterprises.

DFC's will be used as the financial intermediaries for on-lending in those countries where the CDB and the country concerned can demonstrate that the DFC will have the capacity to effectively and economically carry out this role.

In countries where the DFC's do not have this potential, the CDB will attempt to establish an experimental or pilot on-lending program through one or more private or Government commercial banks, private DFC's, cooperative banks, or other qualified financial intermediaries. Under this system, the CDB will on-lend via commercial banks provided they (a) demonstrate their ability and willingness to utilize the funds in a manner consistent with project objectives, (b) are financially sound institutions, and (c) obtain a Government foreign exchange guarantee, or accept the foreign exchange risk themselves.

3. Technical Assistance

The technical assistance activities under this grant will be directed primarily at the borrowers or potential borrowers of the small industry credit funds in the LDC's. AID grant funds of $1.4 million will be provided. The bulk of these funds (approximately $800 thousand) will finance Small Business Advisors (SBA's) who will be assigned to each of the participating LDC's. The main function of the SBA's will be to work outside the financial institutions to assist its potential and actual clients. The assistance provided by the SBA will be substituted or augmented where possible with assistance from the Peace Corps.

The remaining $600,000 of technical assistance will be utilized to provide specialized technical assistance directed at export promotion, and industrial estate programs.

D. SUMMARY FINANCIAL PLAN

The total cost of the project is $12,360,000. The estimated breakdown of cost and financing of the project is shown in the following table. The CDB Governments and others are providing $2,560,000. The project activities will be implemented over four years from the date of signing of the loan/grant agreements. The Project Assistance Completion Date (PACD) will be four and one half years from the date of signature of the Project Agreement. The demand for these funds is established by analyses of past and planned subloans in the region. See Part IV, A, 1. These subloans are illustrative of projects which AID has supported in the past and although full evaluation is not complete they are expected to meet the subproject criteria identified in Part III, Section E., 5.

FINANCIAL PLAN

(US$000)

	AID	CDB	SUB-BORROWERS, DFC's AND GOVERNMENTS	TOTAL
Small and Medium Enterprise Credits	8,400	-	1,680	10,080
Technical Assistance	1,400	-	370	1,770
Administrative Support (CDB)	-	510	-	510
	9,800	510	2,050	12,360 1/

E. SUMMARY FINDINGS

The Project appropriately addresses a priority constraint in the English-speaking Caribbean -- supplementary term financing and technical assistance for industrial estates and industrial lending for small and medium enterprises. It has been designed within the constraints imposed by A.I.D. legislation. It is judged to be an administratively and financially feasible means of achieving the Project purpose. On a sub-project level, proper planning will be assured by the fact that sub-projects will be analyzed by institutions which will be pre-qualified by the CDB and RDO/C as capable of undertaking effective project analyses. The Project meets all other applicable statutory criteria (See Annex I-1, Statutory Checklist).

F. ISSUES

1. The Use of the DFC's as On-Lending Institutions

The major issue that was addressed by RDO/C and the CDB in the preparation of the Project was whether or not, in light of the poor financial performance of the DFC's since their inception, to utilize the DFC's as on-lending institutions for this program. The conclusion reached after consideration of the alternatives (CDB direct lending for small and medium enterprises in the LDC's, or the use of commercial banks as intermediaries) was that in those countries where the Governments were willing to restructure and strengthen the DFC's, providing limited subsidies where necessary, these institutions offered important advantages over the alternatives in terms of providing both technical assistance and financing to small business, undertaking industrial promotion services for the Government, and providing credit to small farmers under the AID/CDB Agricultural Production Credit (APC) programs which would be disrupted if the use of the DFC's were to be discontinued.

1/ Funds may be re-allocated among activities as necessitated by project requirements.

RDO/C and CDB therefore concluded that in those countries, where the Governments are willing to take the steps necessary to develop the DFC's into effective intermediaries and where a sufficient volume of potential business exists, the DFC's will be utilized. It was also decided that the CDB would attempt to establish an experimental program, using commercial institutions (e.g. commercial banks) as intermediaries in those countries where restructuring of the DFC's is not feasible and in Guyana where there appears to be room for both DFC and commercial bank on-lending.

2. Financing Of Export Industries

As analyzed in the most recent IBRD report for the Eastern Caribbean, the potential for import substitution industries, and industries which produce solely for the local or CARICOM market is constrained due to the extremely small size of the market. This limits investment possibilities largely to products which are expensive or difficult to transport relative to cost (e.g. soft drinks, beer, bread, concrete blocks), to the production for the local markets of products which could also be exported, and to enclave industries which would normally not be financed under this program without RDO/C approval since they are generally foreign owned and expected to arrange financing abroad. Since the region's potential for import substitution is reaching saturation, AID funds cannot effectively be used to promote industrial development and employment generation unless financing is made available for enterprises which will in many cases export a portion of their production outside CARICOM.

It is strongly recommended that such enterprises be financed. With regard to exports to the U.S., such exports will not result in any remotely significant competition with U.S. products because of the incredible small industrial potential of the region even if the unemployed all formed employment in export industry, the small size of operations expected to be financed, and because it is expected that the special trading relations with Canada and with Europe under the Lomé Convention will result in the bulk of such exports being sold in those countries.* Further, by creating jobs in the Caribbean, such investment will limit migration pressures that would result in job competition in the U.S.

*Data from Barbados show that currently only about 25% of manufactured exports go to the U.S. If this percentage is applied to the proportion of exports to non-CARICOM countries from 26 export-oriented enclave industries surveyed in the LDC's, an estimated 18% of production would go to the U.S. The share total of manufacturing output that goes to the U.S. would be significantly lower. Since manufacturing only accounts for about 5% of GDP in the LDC's or about $20 million, the amount of exports in dollar amounts would be so small as to be infinitesimal.

G. CONDITIONS AND COVENANTS

1. Special Conditions Precedent To Disbursement

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

> A description of the criteria to be used to determine the eligibility of lending institutions as intermediate lenders under the project.

2. Conditions Precedent To Additional Disbursement

Prior to disbursement under the Loan, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made to any secondary financial institution, the Borrower will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

(a) An evaluation of the institution by the Borrower with a specific finding as to the institution's viability and its ability to manage sub-loans;

(b) A statement of the procedures and criteria against which the institution will appraise the technical and financial, and environmental soundness of the projects.

3. Special Covenants For Sub-project Lending

Borrower will insure that:

(a) Individual sub-projects costing in excess of U.S. $500,000 will be submitted to A.I.D. for approval prior to their being financed under the loan; and

(b) Prior to approval of financing by on-lending institutions for projects located in Jamaica, that financing is not available from the SSE loan program being financed by the International Bank for Reconstruction and Development, except as AID may otherwise agree.

4. Special Covenants For The Industrial Estates Program (IEP)

(a) Prior to the approval of financing for an industrial estate project, Borrower will use its best efforts to establish with the sub-borrower a financial plan for management of the facility that includes minimum rental rates sufficient to cover loan debt service and maintenance costs.

(b) Borrower agrees to work actively towards the adoption of a common regional policy on industrial estates, particularly as regards the reduction or elimination of rental subsidies.

5. Special Covenant For Use Of Funds

(a) Borrower agrees to provide in sub-lending agreements with intermediate credit institutions that project funds, including reflow, which are not used for project purposes within a reasonable period of time shall be returned to the Borrower for use on other aspects of the program. Funds repaid to the Borrower shall be credited to Borrower's Special Development Fund.

(b) Borrower covenants to use income over and above administrative costs and 2% allocation to reserves from interest spread on AID Funds for technical assistance programs that will stimulate the investment in small and medium business enterprises necessary to increase production and employment in the region.

H. PROJECT COMMITTEE

Steve Ryner	-	Project Coordinator - CPDO, RDO/C
Gerald Wein	-	Program Economist, RDO/C
Robert Meighan	-	Regional Legal Advisor, RDO/C
Dwight Johnson	-	Deputy AID Representative

EXPERTS WHO ASSISTED IN PROJECT DEVELOPMENT

Gerald Alter	-	Development Banking Specialist, Economist, Past Vice-President, IBRD, AID Contract C-BRG-538-79-002.
Meredith Burke	-	Labor Economist and Demographer AID Contract - LAC-C-1320.
Frank Skowronski	-	President, Consultant in Business and Banking Analysis AID Contract - LAC-C-1268
Robert Rhoades	-	Social Scientist AID Contract - LAC-C-1283
Ben Severn	-	Program Economist - TDY, AID/W.
Arthur Warman	-	Finance Officer - TDY, AID/W.

PRINCIPAL LIAISON PERSONS IN THE CARIBBEAN DEVELOPMENT BANK

Neville Nicholls, Vice President and Legal Counsel
Lewis Campbell, Director, Projects Department
Joseph de Fonseka, Deputy Director, Industry and DFC's Division
Caroll Robinson, Assistant Director, Industry and DFC's Division
Robert Iyer, Assistant Director, Industry and DFC's Division.
Freddy Harding - Small Industry
Werner Voeth - Loan Officer

APPROVED BY

William B. Wheeler, AID, Representative, RDO/C.

PART II. BACKGROUND

A. ECONOMIC ENVIRONMENT

The Commonwealth Caribbean consists of sixteen (16) dispersed states with a total population of about five million. To facilitate analysis of the economic problems and potential of the English-speaking Caribbean, the countries of the area are usually grouped primarily on the basis of national income levels into categories of More Developed Countries (MDC's) and Less Developed Countries (LDC's). This project will focus mainly on the needs of three MDC's - Jamaica, Barbados and Guyana - and ten LDC's - St. Vincent, St. Lucia, Dominica, Antigua, St. Kitts/Nevis/Anguilla, Grenada, Belize, Montserrat, British Virgin Islands and Turks & Caicos Islands.

The 1970's have been a particularly disruptive decade in the economic life of these Caribbean countries. Without exception all have high unemployment and a pressing need to accelerate job creation. The inflation and world economic resession which ensued in 1973/74 has had a serious adverse impact on the economies of the region. The quadrupling of oil prices, the large increases in prices of imported foodstuffs, combined with a severe contraction in international demand for some of the region's major exports of goods and services, had particularly dire consequences. The three MDC's experienced severe balance of payments difficulties and a deterioration in their central government finances. Eventually the three had to institute austerity measures to protect their balance of payments and budgets. Economic growth was stymied and in many instances living standards deteriorated.

The turbulent economic events of this decade brought to the surface the inherent weaknesses of their economic structures. These events have also placed heavy strains on their social and political structures.

West Indian economies do not exhibit the degree of economic dualism found in many African, Asian and Latin American developing countries. There is, nevertheless, a marked in-equality in the distribution of the capital stock, and, considerable labor resources are unemployed.

The islands all have vulnerable open economies, depending heavily on a few export products and a broad range of imports. For the LDC's, 1977 imports of goods represented some 82% of GNP and exports of goods represented 53%; for the MDC's imports of goods amounted to 63% and exports of goods 49% of GNP.

To understand the unusual characteristics of these economies and the underlying difficulties requires an appreciation of their structural constraints. The small size of the countries as measured by population or the natural resource base is an important limiting factor. With very small domestic markets, self-sufficiency in a broad range of products could only be achieved at highly in-efficient levels of production and correspondingly low levels of national income. Small countries are thus forced to specialize in the production of a very few goods and services and to depend heavily on foreign trade.

The MDC's have been fortunate to have had some valuable natural resources and the ability to exploit them. These include bauxite (Jamaica and Guyana), a climate and soils conducive to the sugar industry (Guyana, Barbados and Jamaica), and a sea-sun-sand combination which attracts tourists (Jamaica and Barbados).

The exploitation of these resources has traditionally made an important contribution to the growth of the area. However, a high level of dependence on these resources has made the economies unusually vulnerable to changes in their external demand. To reduce this export vulnerability, lessen the dependency on imports, and put the economies on a more stable, broad-based footing, the Governments sought to expand their industrial sectors. Diversification of production was also expected to contribute to growth in income and employment. A regional trade group was formed to create a protected market of some five million people, and various incentive policies were established to encourage investment in manufacturing.

B. <u>THE INDUSTRIAL SECTOR</u>

The manufacturing sector in the region is small whether measured in absolute or relative terms. In 1976, manufacturing accounted on the average for 12% of GDP in the MDC's. In the Eastern Caribbean Common Market (ECCM) countries the share of the Manufacturing Sector is estimated at 5%. In Belize the share of manufacturing was 13%. The MDC's accounted for 94% of manufacturing GDP in the region in 1976 while the LDC's accounted for only 6%. Employment in manufacturing in MDC's in 1976 was estimated at about 140,000.

Industrial activity throughout the Caribbean is mainly concentrated in the lighter manufacturing areas which typify countries at an early stage of industrialization. Trinidad & Tobago, Jamaica and Guyana do have some heavy industry based upon petroleum or bauxite resources, but their development has been historically separate from that of lighter manufacturing. Such light manufacturing is predominantly import substituting. Unduly high capital intensity has been fostered by duty-free imports of capital goods, the difficulty in borrowing for working capital as compared with physical capital, the bias of credit institutions toward "modern" plants, and, in some cases, unrealistic exchange rates. The import content of production tends to be very high because of the limited supply of domestic raw materials and intermediate goods and the duty-free import status offered as an industrial incentive. Protective tariffs, quantitative restrictions, and generous fiscal incentives have permitted import substituting industries with high production costs and a resulting inability to penetrate extra-regional markets. Exceptions are assembly-type products, such as clothing and electronics, which have developed in several islands.

The magnitude and scope of industrial activity in the LDC's are extremely limited. In St. Lucia, Antigua, and St. Kitts, manufacturing encompasses a limited amount of import substitution (soft drinks, concrete blocks), some production for regional markets (garments, beer, processed agricultural products) and several export-oriented firms often producing for extra-regional markets (TV and electronic assembly plants). Dominica, Grenada, and St. Vincent have extremely narrow manufacturing sectors.

C. UNEMPLOYMENT

Even with these positive efforts and incentative policies unemployment and under-employment continue to grow. Unemployment has been categorized by the World Bank as the most pervasive and pressing problem facing Caribbean countries today. Accurate measurements of unemployment in the LDC's are non-existant. World Bank estimates of current unemployment in the Eastern Caribbean LDC's ranges from 13-23%. Others have estimated the rates considerably higher. In Barbados unemployment dropped to 12% in 1978 while in Jamaica the unemployment (in 1977) was estimated at 24%. Data on the age distribution of unemployed workers shows that about 75% are under 25. The fact that the numbers of youth entering the labor force annually is increasing, both because of demographic characteristics and because the fewer young workers are able to migrate to developed countries, suggest that the pressure for jobs will become more intense in the future.

In addition to open unemployment, there is substantial under-employment. Although accurate national measures of under-employment are understandably lacking, numerous illustrations could be cited. In St. Kitts, for example, out of a total labor force of 20,000 in all sectors, some 3,000 cane cutters are employed on a guaranteed three-day week basis; another 1,000 are employed full-time for 26 weeks and three days a week during the balance of the year. During the Summer of 1978, the Barbados Government also found it necessary to place hundreds of government "casual" workers on a temporary four-day week basis due to budget constraints.

D. EMPLOYMENT AND INCOME GENERATION

With public sector budgets overstrained, and given the limited amount of labor that can be abosrbed in agriculture, a large proportion of additional job creation and production must come from commerce, manufacturing and tourism. Expansion of employment in these sectors will directly improve the well-being of the poor. Small and medium scale manufacturing and service enterprises offer particular promise for employment generation as do traditional or informal activities such as workshops and household industries which are generally labor intensive and provide an outlet for independent people able to organize employment for others.

A recent World Bank study concluded that industrial growth and employment in the Eastern Caribbean LDC's will have to rely significantly on foreign enclave operations. Like small and medium scale firms, such industries have the advantage of often being labor intensive. In addition, they often supply their own capital, market information and technical expertise. If enclave industry is to be attracted, it is imperative that incentives be maintained such as competitive wages and limited industrial disputes.

The most significant structural obstacles to expansion of production and employment in manufacturing have been the dearth of natural resources suitable for industrial processing and the small size of internal markets. Other important constraints more amenable to policy and program intervention include:

- Shortcomings of the capital markets, e.g. inadequate availability of capital, unduly conservative credit term and conditions, limited capacity of many of the financial institutions to efficiently serve small and medium-sized clients, and concentration of wealth in the hands of businessmen in the distributive trades who are unwilling to assume risks in industry. (Annex II-8 contains a description and analysis of the Caribbean financial markets).
- Lack of confidence in Government economic management, lack of clarity about the rules governing foreign investment and a resulting perception of foreign investors that they are unwelcome in the Caribbean.
- Lack of skills in project preparation, financial management, marketing, etc., for small and medium-sized businesses.
- Limited entrepreneurial skills, lack of knowledge of technological alternatives and lack of knowledge of potential markets.

E. EVALUATION OF PREVIOUS AID EXPERIENCE

1. Development Finance Corporations

Ten Development Finance Corporations operate in the Eastern Caribbean and Belize. These DFCs were established to serve indigenous borrowers who did not have ready access to financing through commercial channels. Over the past five years they have collectively approved $7.8 million in sub-loans. They have been the primary source of finance for many small businessmen operating labor-intensive enterprises. However, the DFCs have accrued a net operating loss of $202,000 and an estimated 630 loans, valued at U.S. $2 million, are currently in arrears.

The system has equity (or near equity) valued at US$4.6 million, a debt equity ratio of 2.5:1, and total banking assets of above US$13.4 million. Nearly half of the assets, and more than half of the equity, is attributable to the one DFC in Belize. The DFC system is staffed by 145 persons, and has an annual salary bill of about US$360,000. (For detailed information on individual DFC's see Annex VI-7).

The generally poor performance of the DFC's is partially attributable to the tiny market served. For most DFCs the volume of operations is too low to cover operating costs, which are on average 8% of sub-loan portfolio value. On-lending rates generally have been below commercial rates and have not provided an adequate spread. Moreover, collection procedures of many DFCs have been poor.

In fact only four LDC's (Belize, Antigua, St. Lucia and Dominica) appear capable of supporting well run independent financial institutions devoted primarily to the provision of fixed capital. Even in these, the development of markets would appear to proceed at a pace insufficient to generate income at rates required for commercial viability (except for Belize).

2. Industrial Estates1/

A total of 375,257 square feet of factory space has been constructed with funding from the 11 sub-loans made by CDB to the seven countries2/ that were surveyed.

Of the 375,257 square feet of factory space that has been constructed, only 6,000 in Belize are vacant and uncommitted. There is no space in any of the other six countries available for immediate occupancy. An additional 4,000 square feet in Dominica is rented by the Government for a training program and 20,000 square feet in Antigua, which had been occupied by an animal feed mixing plant now in bankruptcy, is committed to the Government, which plans to reopen it. Even counting committed space as vacant, the current vacancy rate of less than 10% is quite low; for example, CDB uses a 25% vacancy rate in its formula for calculating economic rental rates.

The primary objective of the Industrial Estates Program is and should be, job creation, and the results of the program are impressive. Some 2,000 jobs have been created during the relatively short period of about six years during which the program has been operative.

The Industrial Estates Program of the CDB is also impressive from an industrial investment standpoint. A public investment of $4.4 million in estates has served as a catalyst for a private investment of about $6.5 million in machinery and equipment. Combining the two fixed investments, total investment per worker is about US.$5,400. By international standards, the industries that have been attracted by the Industrial Estates Program have been highly labor-intensive. Their overall contribution to GDP is significant as well. The US $10 million in GDP they generate is over 1.5% of the total GDP of the LDC's where the IEP was evaluated. 3/

The evaluation of the EIP also uncovered several problem areas. Most important among these is the current rental policy. Most estates charge about $1/sq.ft. for space in factory shells. This price is less than half of the economic cost of the facilities provided. The cost of this subsidy in economic terms is estimated at over $400,000/year.

Other problems were identified in the planning, and management of industrial estates. The consultants recommended that technical assistance be provided to improve demand projections, standardize design, improve maintenance, and in several other areas.

1/ - Evaluation of Industrial Estate Loans provided by the Caribbean Development Bank, prepared by Clapp and Mayne Inc. May 1979.

2/ - Antigua, Barbados, Belize, Dominica, Montserrat, St. Kitts, St. Lucia.

3/ - See also Annex V-3 for a discussion of the economic effects of the IEP.

F. PROJECT STRATEGY

1. Strengthening Credit Delivery Systems

The major issue arising out of the review of financial markets and DFC's is whether to continue to utilize the DFC's, and if not - to determine what mechanism should be used for channeling credit to small and medium enterprises in the LDC's. One possible solution considered was the use of commercial institiutions; this alternative was explored by an RDO/C Consultant, Gerald Alter, an ex Vice-President of the IBRD, who has had broad experience in dealing with financial intermediaries As a result of his study of the situation, he recommended the use of commercial banks, and developed a framework for a CDB program to channel funds through commercial banks, which, he pointed out, would be unlikely to deal with the very small and inexperienced entrepreneur.

After a joint evaluation of the DFC's and the commercial institution alternative, the CDB and RDO/C concluded that the DFC's, if they could be restructured, would have several desirable advantages for the CDB program in the LDC's. These advantages are:

(a) as public institutions, the DFC's are able to lend to and provide technical assistance to small entrepreneurs who are considered too risky for lending by commercial banks;

(b) in some countries they perform industrial promotion activities for the government and in some cases manage the Industrial Estates Program;

(c) in many of the LDC's, the DFC's act as intermediaries for the AID/CDB Agricultural Production Credit Program (APC).

Because of these advantages the CDB and RDO/C concluded that in countries where the DFC's are viable (Belize) or where the Governments are willing and able to undertake the necessary measures (including provision of subventions) to make the DFC's into effective development institutions, the DFC's will be strengthened and utilized under this and other CDB programs.

In those countries where there is little hope of developing a DFC or where the Governments will not agree to restructuring the DFC's, the CDB will attempt to negotiate agreement for the utilization of commercial institutions as intermediaries on an experimental basis. Conversations to date with the managers Caribbean head offices of the main commercial banks of the region indicate that the commercial banks are interested and willing to participate in such a program on the terms and conditions discussed in this paper.

RDO/C considers this approach to the DFC problem to be a realistic and feasible one. Under this approach, we would expect three to five DFC's to qualify for on-lending. As far as the experimental commercial banking program, we would expect that this program will be established on an experimental basis in two to three countries, including Guyana where the Central Bank and the commercial banks have both expressed a strong interest.

2. Industrial Estates

The industrial estates program appears to have been very successful in generating investment, employment and output. The most serious problem seems to be the low rental rates. Most of the institutions involved appear to be predisposed to increase rates, and the CDB's covenant to actively work toward this objective should be adequate. The CDB, as the credit source for the majority of industrial estates in the Region, is in an excellent position to exert its leadership on this issue.

The problem identified with respect to the planning and management can be resolved through the provision of technical assistance. This TA will be provided under the grant portion of this program.

3. Strengthening Entrepreneurial And Managerial Capacity

Provision of credit and industrial estates will not by themselves be sufficient to assist the inexperienced businessperson. Training and technical assistance will be needed. These needs will be addressed in this project, first, by establishing a Small Business Advisor in each LDC to provide long-term assistance and, second, by augmenting his/her assistance with short-term consultants as needed.

Description of these activities follow.

PART III. PROJECT DESCRIPTION

The goal of this project is to increase employment and outputs of the industrial and informal sectors 1/ of the MDC's and LDC's of the English-speaking Caribbean (the Region 2/). Goal achievement will require coordinated efforts on the part of the public and private sectors, as well as the international donors and it will not result from this project alone. The purpose of the project is to stimulate the investment in small and medium industry necessary to increase employment and production in the region.

A. PROJECT DESIGN

This project is designed as to provide medium and long term credits to Caribbean small and medium industry (private, public, and mixed enterprises) and for industrial estates. It supports and parallels the research and technical assistance activities undertaken in the Employment/Investment Grant AID project 538-0013. Under the proposed AID Loan/Grant, funds of $9.8 million by AID will provide financing for both foreign exchange and local costs of sub-projects in both the manufacturing and service sectors. Project activities include the following:

-- Direct Lending by the CDB for industrial enterprises and industrial estates. (AID Loan Funds).

-- On-Lending through financial intermediaries. (AID Loan funds).

-- Technical Assistance (AID Grant Funds).

1. Direct Lending

Approximately $4.5 million of the proposed loan funds will be utilized for direct lending activities over the four-year period of 1979-1983. Sub-loans will be made for industrial estates development and projects in the industrial and service sectors, and will finance equipment, construction and permanent working capital. Utilization of local construction services and resources will be encouraged as this will increase the project's impact on regional employment and income.

1/ - Informal sector includes cottage and service industries, i.e. handicrafts, workshop, appliance repair services, etc.

2/ - More Developed Countries (MDC's) - Barbados and Guyana. Jamaica will be included only if IBRD funds are inadequate for the country's needs.

Lesser Developed Countries (LDC's) - Antigua, Belize, Dominica, Grenada, Montserrat, St. Kitts/Nevis/Anguilla, St. Lucia, St. Vincent, British Virgin Islands, Cayman Islands and Turks and Caicos Islands.

Direct sub-loans utilizing AID funds will be made by the CDB only if the loan term is in excess of three years and the value is over $100,000. This lower limit is currently under review by the CDB and may be raised to $150,000 in 1979 prices.

CDB interest rates to the private sector for direct industrial lending (presently set at 10½%) will approximate commercial rates. The CDB will continue its policy of lending to Governments for industrial estates at 4%. All CDB direct lending whether to Governments or to private industry will be denominated in U.S. dollars with the borrowers thereby assuming the foreign exchange risk as well as the commercial risk.

In consonance with the IBRD recommendations and CDB's stated intentions, the CDB will endeavor to obtain the agreements of Governments to sharply reduce or eliminate the subsidies on industrial estates as soon as possible. The recommended minimum rental rate would be adequate to service the loan debt and maintenance cost.

2. On-Lending Activities

$3.9 million of AID loan funds have been allocated to on-lending specifically directed at providing foreign and local funds in support of the expansion of small and medium sized enterprises. Because of the small size of the economies and the concomitant dearth of profitable investment opportunities, eligible sub-projects under this program would include a wide variety of informal, small and medium manufacturing and service enterprises. These include manufacturing enterprises; commercial enterprises such as bakeries; construction and transportation services (buses, trucks, taxis); and other service industries such as vehicle repair shops, general repair shops, small scale tourism, etc. The required AID loan funds are estimated at $3.9 million for the period 1979-82.

The project will utilize the Development Finance Corporations (DFCs) and commercial institutions as financial intermediaries, but only one of these channels would be used in each country. Priority will be given to the DFC's where they have been determined by the CDB to be technically and financially sound. A general criteria and evaluation check list for determining the acceptability of DFC's in the CDB's on-lending program has been developed. (See Annex VIII-6).The CDB will develop more detailed criteria against which to evaluate the eligibility of each prospective financial institution as a CP to disbursement of project funds. The DFC's will be required to accept the full commercial risk on loans made with CDB/AID resources. Government guarantees will protect the CDB against foreign exchange as well as commercial risks.

DFC's determined to be eligible and electing to participate in the project will be permitted to borrow from the CDB at 4% interest. The loan level will reflect realistic demand projections and an assessment of the DFC's ability to administer an expanded program. The DFC's will on-lend at non-prime commercial rates, presently 10-12%, rather than at the DFC's traditional 8%.

To partially address the DFC problems identified above, the CDB will provide the services of a development banking specialist who will work regionally out of CDB headquarters.

Short-term technical assistance will also be provided as necessary. AID grant funds are already available for these purposes. The lack of trained human resources to plan and implement sub-projects is also a continuing problem, but is not seen as an insurmountable obstacle.

When the CDB cannot determine that a DFC in a country is an acceptable financial intermediary, the CDB will negotiate the establishment of an experimental on-lending program through one or more private or Government commercial banks, private DFC's, cooperative banks, or similarly qualified financial intermediaries. Under this proposed pilot program, the CDB will lend directly to commercial banks provided that they (a) demonstrate their ability and willingness to utilize the funds in a manner consistent with project objectives, (b) are financially sound institutions, and (c) obtain a Government foreign exchange guarantee. It is anticipated that the CDB will make funds available at 4% and that Governments will receive a 1% fee for covering the foreign exchange risk. Banks are expected to on-lend at non-prime rates, presently in the 10-12% range. Though the average cost of commercial resources are lower than the anticipated 5% or 6% rate, three commercial banks have indicated this spread is sufficient incentive for them to participate in the program.

Both public (DFC's) and private institutions are expected to carry out financial rate of return calculations for all loans submitted for on-lending. All sub-projects must be financially viable without subsidy. Sub-loans will be made for permanent working capital as well as fixed assets of small and medium enterprises.

Permanent working capital sub-loans will be restricted to those enterprises expanding their fixed assets (with or without the use of borrowed funds for this purpose) and to those enterprises requiring additional working capital to effect a major increase in equipment utilization (e.g. adopting a double shift or improving present usage.)[2/]

Financial intermediaries will be permitted to use up to 100% of CDB funds to cover their contribution to eligible sub-projects [3/]. However, the intermediaries contribution would not exceed 70% of the total cost of the project. (Consideration may be given to reducing this maximum percentage of the loan in the case of countries with excess liquidity in the banking system.

2/ In some cases short term financing (6 to 18 months) will be used for raw materials and spare parts imports to generate maximum employment with existing equipment.

3/- CDB's current policy is to reimburse DFC's for:

(i) up to 90% in case of a sub-loan to a person whose net worth is below local currency $150,000 or

(ii) up to 80% in case of a sub-loan to a person whose net worth is above local currency $150,000.

In the MDC's:

(i) up to 80% in case of a sub-loan to a person whose net worth is below local currency $150,000 or

(ii) up to 70% in case of a sub-loan whose net worth is more than local currency $150,000.

3. Technical Assistance

The project provides for technical assistance in the following areas:

- a Development Banking Specialist and short term specialist to provide TA to the DFC's (financed under the previous E/I Grant)
- a Small Business Advisor to be stationed within each of the participating financial institutions
- Technical Assistance (long and short term) in export promotion,[1/] industrial estate management, small business, technical support
- Consulting Services to establish standards for industrial estates
- Consulting Services to design and provide quantity surveys for standard factory shells.

The FY '78 Employment Investment Grant (IEP) project included funds for short term studies of the mechanisms needed to insure the provision of small business technical assistance on a continuing basis. The CDB has determined that an outside study of this problem is not necessary and that the CDB, with the addition of local Small Business Advisors (see below) and strengthened DFC's, can identify and administer the needed technical assistance. The assistance needed to strengthen the DFC's will be provided through a development banking specialist (financed under the previous EIP grant) and short term assistance as needed.

In addition, there continues to be a need for on-site and in-country technical assistance to potential investors in loan preparation and implementation. At the present time, neither the CDB nor the financial institutions are staffed to provide the required technical assistance, nor does the FY '78 Institutional Development Grant provide the funding required for this purpose.

The technical assistance activities under this grant will thus be directed primarily at the user or potential user of the small industry credit funds in the LDC's. AID grant funds of $1.4 million are assigned to provide the technical assistance needed for project development and implementation. The bulk of these funds ($0.8 million) will be used to provide a Small Business Advisor (SBA) within each of the participating financial institutions. The assistance provided by the SBA will be augmented where possible with expertise to be tapped from the Peace Corps and the International Executive Service Corp. (IESC), the latter for short term assignments.

The remaining $600,000 of technical assistance funds will be utilized in areas of Specialized Technical Assistance directed at export promotion, industrial estate management and small business entrepreneurial support. The uses of technical assistance funds are explained in greater detail below.

1/ See Annexes II-2 and VIII-8 for additional export promotion activities by other donors.

a. Small Business Advisor

The small business advisors (SBA's) will be provided for a period of two years to each of the LDC's. AID grant funds will provide salary and personal benefits. All other support will be funded by the participatin institution and or the CDB. The SBA will have a local counterpart assigned to work with him/her to maximize information transfer and assume the SBA's duties at the end of the contractual period. The SBA will be in contact and provide technical and administrative support to small business enterprises on a daily basis. He/she will also identify the need for and arrange for more specialized technical assistance via the CDB. The SBA's may also assist with training activities planned under RDO/C's Regional Development Training Project. The SBA may, using that project, for example, organize training seminars in the LDC's aimed at small business and those interested in special training in areas such as rudimentary book-keeping, responsibilities of employers, basic principals of business organization, procurement, quality control, pricing, inventory management, and procedures for preparing investment projects and obtaining credit. Seminars of this type will be presented in each LDC territory where adequate interest is expressed.

Additional support to the small business technical assistance effort is to be provided by the existing program between the Peace Corps' and some of the countries of the region. With the support and coordination of the Governments, the CDB and PC, this program is to be expanded to include more of the participating countries in the loan program. PC has been providing assistance in the Caribbean host Government sponsored business development activities and projects for some 5-6 years. It is estimated that some 20-30 PCV's have served in small business assignments during this period.

b. Other Technical Assistance

The remaining $600,000 for Technical assistance will be directed toward programs to:

- assist small entrepreneurs with technical assistance (on a grant and reimbursable basis depending on criteria to be developed jointly in consultation with Government officials, local banks and the Caribbean Association of Industry and Commerce)in production.

- marketing, export promotion,and management on an individual enterprise or group of common enterprises basis.

- provide consulting services and technical assistance for the industrial estates program.

As sub-loans are identified by the financial institutions an evaluation is made as to the specific technical support required by the sub-borrower in production, marketing or management areas. This evaluation could come from the SBA, the SILO, Peace Corps Volunteer or the financial institution's reviewing officer. These TA needs are collected by the SBA who in turn requests the CDB to contract to supply the personnel.

A needed element in the industrial estates program (IEP) is establishment of standards for estate buildings and leases. This technical assistance component will provide consulting services to establish standards for location, site development, design and maintenance of new industrial estates.

Minimum design standards for lot size, percentage of coverage, ventilation as a percentage of floor area, number of sanitary units, lean-to design of sanitary facilities, building height, loading and unloading ramps or platforms, parking and other access will be established. Structural specifications must conform to insurability requirements. In some of the countries or in the region there may already be a comprehensive set of building standards that can be adapted or modified to fit the IEP. This will be determined before contracting for the consulting services.

Another objective of this component is the establishment of design standards for estate buildings. Standard designs for four or five standard sizes and configurations that meet the most common demands for industrial space, plus quantity surveys of the material required for their construction, will be prepared. This would help to routinize bidder calculation and broaden the area of contractor competition, and so reduce construction costs. For such buildings, only footings and drainage schemes must be specially designed.

It is tentatively recommended that standard buildings should be initially designed in four sizes of 6,000, 10,000, 20,000 and perhaps 24,000 square feet. All should permit economical subdivision for multiple occupancy. A careful study of the cost, functional efficiency and durability of existing factory buildings throughout the Caribbean, plus their insurance costs, is a prerequisite for the design and quantity survey work.

B. LOAN APPRAISAL AND ADMINISTRATION 1/

1. Direct Lending

The proposed CDB direct lending program for both industry projects and industrial estates will operate within the present structure of the CDB's project preparation, appraisal, and approval procedures with AID approving in advance all sub-projects exceeding US$500,000. The project preparation and appraisal are performed by project teams with an appropriate mix of expertise and include analysis of technical (including environmental), financial and economic feasibility of a project, and the projects organization and management. The work of the project committee is supervised by a division chief, in this case the chief of the industry division, and more generally by the Director of the Projects Department. Also, the Project Design and Analysis Division provides support in providing special technological information and appraising technical assistance components if required. A loan committee composed of the President and Division Chiefs monitor appraisal progress and reviews all project papers, which if found satisfactory, are presented to the Board of Directors for review.

1/ Due to the cooperative effort of all members of the CDB and the representation of all countries on its Board of Directors, no individual country lending levels have been established. Subproject submission will determine the flow of funds; however, due to the make up of CDB's Board each country is expected to participate.

Project implementation is the responsibility of a Project Manager within the appropriate technical division and supported by other technical divisions as required. For example, the General Counsel provides support in assuring that all conditions precedent are satisfied and the Treasurer disburses, acting in consultation with the project divisions. Project implementation reports are prepared on a quarterly basis and are reviewed by an Investment Committee composed of the President and Division Directors.

2. DFC On-Lending

The implementation of the on-lending program will also be the responsibility of the industry division, which with the assistance of consulting services provided under AID's Employment/Investment Grant will evaluate the capacity of the DFC's and the commercial banks to appraise and administer term loans. In the case of the DFC's the Industrial Division will evaluate (1) the capacity of each DFC to appraise and administer loans and (2) the short and long term financial viability of the DFC, e.g. its ability to generate sufficient cash flow plus Government subsidy to assure maintenance of capable staff and service its debt obligations to the CDB. Based upon this evaluation, the Industry Division will conclude whether or not to undertake operations with the DFC. If the conclusion is positive, the CDB will present its evaluation to RDO/C and request RDO/C's concurrence to pass loan funds through the subject DFC. RDO/C will review the evaluation and either concur or decline to declare the DFC eligible for AID funding depending on whether RDO/C can reasonably conclude that the medium term prospects for developing the DFC into a competent intermediary are good.

Once a DFC is declared eligible, the CDB Industry Division will undertake the responsibility of approving all sub-projects over CDB established review limits; monitoring the quality of the DFC appraisals and any agreed program of institutional improvement upon which eligibility might be conditioned.

3. Commercial Institution On-Lending - Experimental Program

To commence this experimental program the CDB industrial division will attempt to negotiate agreements for on-lending of funds through commercial institutions in at least three countries (probably Guyana, St. Lucia, and St. Kitts) after evaluating each institution's (1) capacity to appraise the project (2) credit worthiness and capacity to assume the commercial risk. Since commercial banks have indicated their unwillingness to assume the exchange risk or pass th exchange risk to small borrowers, the CDB will also have to negotiate the assumption of the exchange risk by the Governments of the countries. Once the evaluations are completed, but before finalization of negotiations, the CDB will request RDO/C's concurrence to the terms and conditions negotiated. RDO/C will approve the request based on its judgement as to the viability of the arrangements.

Since commercial banks will be evaluated according to their capacity to assume commercial risks, it is anticipated that they will have free limits up to $100,000 with the CDB retaining the right to comment prior to loan approval on environmental and other issues and to carry out post loan approval reviews to assure that sub-loan criteria are being met.

4. Technology Review

Under the FY 1978 Employment/Investment Grant, No. 538-0013, the CDB has established a technological review responsibility in its Projects Analysis and Design Division. On request of the lending institutions or sub-borrowers and for all projects where the investment cost per job exceeds US $5,000.00, this division will review the technologies in the project designs with a view to suggesting lower cost or more appropriate technologies and equipment for both direct and on-lending programs.

5. Eligibility Criteria

To be eligible for financing under the loan program, investment projects must meet the following qualification tests:

- have a fixed investment/worker ratio of $10,000 or less in 1979 prices. This assumes that the capital has a useful life of 15 years and that plant costs are included in fixed investment. A significant variation in the expected life of the physical assets would require a corresponding adjustment to the $10,000 investment/job cut-off level. Exceptions may be granted to this level where RDO/C is presented with evidence that the project has substantial indirect employment benefits, provides special forward or backward linkages in support of industrial or agricultural development, or has a significant social impact on the poor majority.

- be financially viable as indicated by a minimum 12% rate of return on total investment (without subsidy) Exceptions may occasionally be permitted if CDB and AID concur that the project yields overriding social or employment benefits. Commercial banks may be allowed a cut off level below which financial rates of return are not required.

- Industrial estates projects may be financed when satisfactory evidence of demand exists and when such projects are economically, technically and environmentally sound. Economic soundness analyses will take into account the effect of the project on national income and employment and on the Governments' fiscal situation.

PART IV. PROJECT ANALYSES

A. FINANCIAL ANALYSIS

1. Demand For Credit

a. Industrial Estates And CDB Direct Lending

Demand for industrial estates financing by the CDB has recently been projected by consultants hired to evaluate the effectiveness of the AID/CDB industrial estate projects. After reviewing industrial plans, interviewing entrepreneurs, the consultants made two separate demand estimates. The first was based on the increase in manufacturing employment projected in the national plans of Barbados, Dominica and St. Lucia plus approximations of such plans developed in consultation with the planning and ministerial officials of the remaining four countries visited. The second set of estimates is based on projections of the past rates of construction and use of industrial space, including the existing high rate of occupancy. These methods led to demand projections of $10.6 million and $5.6 million respectively. The CDB itself has identified projects of $5.5 million. Approximately $3 million of the loan funds are allocated to meet this demand.

As far as direct lending, the CDB has identified projects totalling $2.2 million which it is considering for financing under this program. Further, the IBRD in its country by country analysis dated March 16, 1979, identified projects eligible for CDB direct lending in the amount of $5.5 million. These projects are shown in Annex IV-4. Given these estimates, we feel reasonably confident in concluding that $1.5 of AID funding allocated to direct lending is well within the funding requirements. This demand is sufficient to implement the project in a timely manner.

b. On-Lending

The CDB has projected on-lending requirements of $7.7 for AID funding, whereas only $3.9 million of loan funds have been tentatively allocated for this purpose. Effective utilization of this reduced level of funding will be insured by efforts to strengthen the existing and creating new financial intermediaries for CDB on-lending.

With regard to the use of commercial banks, a previous on-lending program of this type was effectively utilized in Guyana under a bilateral AID program. Conversations with private commercial banks and the Central Bank of Guyana indicate that up to $1.6 million can be utilized via commercial banks in that country. US.$2.3 million is tentatively allocated for on-lending via DFCs and private banks in the remaining countries. The Project Team feels that this is an appropriate level of support for this program. In the event that the utilization of funds under this program does not reach the projected level, unused funds would be transferred to the direct lending program.

2. Analysis of CDB's Resource Requirements

a. Soft Loan Requirements and Availabilities

As of 12/31/78 the total funds available to the CDB for relending was $251 million of which $177 million was committed against specific sub-loans for approved projects and projects in the appraisal stage. The uncommitted balance, $74 million, represents the total amount available to the CDB at 12/31/78 for new lending. The following table shows a break-down of funds availabilities and commitments for the Bank's Ordinary Capital Resources (OCR) and each of the Bank's special funds.

CDB's FINANCIAL SITUATION AS OF DECEMBER 31, 1978

	Funds Available	Commitments	Uncommitted Balance
Hard Funds			
1. Ordinary Capital Resources:	70,156	41,112	29,044
- Member Subscriptions	35,406	34,072	1,334
- World Bank Loan	20,000	17,690	2,310
- Regional Bank Bonds	9,750	-	6,831
- Bond Issue (Trinidad)	5,000	350	4,650
2. Venezuela Trust Fund	25,022	12,822	12,200
Total Hard Funds (1&2)	95,178	53,934	41,244
Soft Funds			
3. Special Funds Resources	76,249	44,627	31,622
4. Special Development Fund	79,962	78,812	1,150
Total Soft Funds (3&4)	156,211	123,439	32,772
Total Funds	251,389	177,373	74,016

With regard to its resource requirements, the CDB, after allowing for slippage and inflation, has projected a lending program of $253.4 million for the period 1978 - 82, made up of $112.5 of soft lending and $140.9 of hard lending and a funding gap of $53.4 million. These projections allow for no increase in soft lending as compared to the 1975 - 77 average when measured in real terms after factoring out inflation and does not take into account the requirements for special new programs such as the CDF. After accounting for firm and conditional pledges made to date, there remains a total resource gap of about $60 million of which $18 million is for soft funds. We have discussed the proposed lending program with the IBRD personnel which have been assisting in Caribbean sub-projects identification and pre-appraisal. Based on these discussions the projected program is considered to be on the conservative side. Further, the total numbers do not take into account the fact that many of the resources available are programmed for specific uses and would not be available for the specific financing for which the proposed AID loan would be used. Taking these factors into account, RDO/C considers this CDB request for financial assistance to be soundly based in terms of the CDB's overall resource requirements and the specific needs for soft funds for this project.

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*Includes loans approved by CDB Board of Directors and projects in the final stages of preparation for early Board approvals.

In analysing the amount of funds available to the CDB for the type of Industrial lending anticipated under the project, it is necessary to consider the OCR and each of the various special funds of the Bank separately. As discussion of each of these follows:

Ordinary Capital Resources: The Ordinary Capital Resources are comprised of Members' paid-in subscriptions, hard term loans from the World Bank, Trinidad Bonds and a CDB Regional bond issue. These funds are used by the Bank to finance its "Ordinary Window" operations and loaned at interest rates of 8 - 10% to private sector borrowers.

Because of the nature and objectives of the proposed industrial sector development program, the Bank's OCR funds could not be effectively used for this purpose. The project seeks to strengthen the credit systems of the region. It is thus anticipated that a major portion of the sub-loan portfolio will involve two institutional mechanisms: First, the CDB will lend to a selected public or private financial institution which will in turn lend to the final borrower. Second, the CDB will lend directly to the public and private sector for industrial development projects. In order to maintain a reasonable interest rate to final borrowers and also allow sufficient spread to the CDB and the financial institutions for the administrative and risk costs of such a program it is necessary to begin with concessionary funds. The IBRD loan to the CDB, for instance, is at 8½% terms, and if used to finance the proposed project, would result in annual interest rates to final borrowers of up to 16½% (8½% plus 3% to CDB plus 5% to lending institutions). This is considerably above the current average commercial rate in the region of 10 - 12%. Also the 16½% rate would likely reduce the financial viability of many of the potential sub-projects which, although they may involve some risk, could produce the type of developmental impact sought by the Employment/Investment Promotion Project. The project as now formulated would permit on-lending rates of 10 to 12% which allows for sufficient spread to provide funds at approximately the current prime lending rates in the region.

Venezuela Trust Fund: These funds are administered on a trust arrangement by the CDB. They are on the same terms as the OCR and thus, could not be used effectively for this project for the same reasons discussed above.

Special Fund Resources (Non-SDF): The Bank has established several special funds for the specific types of sub-project financing. In each case, these have been capitalized by concessionary funds made available by the various donors under agreements which define and limit the CDB's use of the funds. Three such special funds were financed in part by AID loans, i.e., the Housing Fund (FY 71), the Agricultural Fund (FY 76) and the Agribusiness Development Fund (FY 78). The Canadian Government has also contributed to the Agricultural Fund and Trinidad and Tobago financed the LDC Counterpart Contribution Fund. IDB in 1978 provided a global loan of $12 million. The uncommitted balance of these funds, $32 million including the AID contributions, are restricted to or programmed for uses other than the small industry development that the proposed AID/loan is designed to finance.

Special Development Fund (SDF): The Special Development Fund is almost totally committed at present. CDB has conservatively projected a requirement for $50 million in new SDF resources for the 1979-82 period after taking into account other available special funds. Approximately $34 million in new resources has been tentatively pledged by the U.K. Canada, Venezuela, the Federal Republic of Germany, and other donors. However, a short fall of $15 million remains. The proposed AID/loan would provide approximately half this amount.

In addition to the proposed AID loan, the Bank is discussing with the IBRD the possibility of a global loan of up to $30 million for late 1979. Some 5-7 million of these funds would be on soft terms and could further support industrial expansion in the Region, but are being programmed for soft loans for infrastructure,e.g. power supply, water and sewage programs and roads.

Based on the above, the Project Committee concludes that the Bank could not undertake the proposed project using its other available resources, and that the resources of the proposed AID loan are needed to carry out this Employment/Investment Program in the eligible countries.

b. Technical Assistance Requirements and Availabilities

As of 04/30/79 the total grant funds committed or pledged to the CDB for technical assistance and related research activities was $9.4 million, including other donor pledges to the new Technical Assistance Fund. Most of these funds have been pledged during the past year to meet technical assistance requirements of project preparation and implementation, sector planning, training and staff development over the next four years. The new technical assistance proposed under this project was not included in the requirements when they were compiled. The CDB plans to initiate a major technical assistance program for the benefit of borrowing member countries and sees such a program as critical to the development of the area. However, the recent reorganization of the CDB delayed implementation. This reorganization is now completed. The following table shows a breakdown of technical assistance funds pledge and committments.

TECHNICAL ASSISTANCE FUNDS PLEDGED TO THE CDB as of April 30, 1979
(US$000)

Contributors	US$000's Grants	Committed	Uncommitted Balance
AGRICULTURAL FUND (AID)	242	240	2
INTEGRATED AGRICULTURAL DEVELOPMENT PROGRAM (AID)	400	331	69
REG'L AGRI-BUSINESS DEVELOPM'T (AID)	450	24	426
PRE-INVESTMENT STUDIES (IDB)	1,000	88	912
REGIONAL FOOD PLAN (UNDP)	2,000	185	1,815
EMPLOYMENT/INVESTMENT PROMOT'N (AID)	1,676	-	1,676
TECHNICAL ASSISTANCE FUND (AID)	1,837	-	1,837
TECHNICAL ASSISTANCE FUND (Others)	1,840	-	1,840
TOTAL	9,445	868	8,517

The 1978 Employment/Investment Promotion Grant provides $174,000 for a small industry assistance survey which has been delayed in implementation due to the CDB's reorganization and re-evaluation of TA needs. Most of this 1978 AID grant was, however, provided for applied appropriate technology research and the establishment of a technology information unit in the CDB.

As indicated by CDB's President Demas in his statement to the Ninth Annual Meeting of the Board of Governors, the CDB "has already reorganized itself to take up the challenge arising from the anticipated investment activity". One of the actions to be prepared is to "accelerate implementation of its new Technical Assistance Program for project preparation and implementation, for providing assistance in management to both the public and private sectors in borrowing countries and for providing Pools of Experts for the LDCs".

3. Financial Viability of Sub Projects

1. Direct and On-lending to Small & Medium Business

A loan convenant will require a rate of return analysis for each project. The eligibility criteria is that the financial rate of return for each sub-project be at least 12% or such other rate as economic conditions warrant. Exceptions to this rate of return convenant could be granted by RDO/C if the project would provide special benefits to AID's target group, to industrial development through linkages to agriculture or other local industry, or to regional industrial integration. Given the fact that commercial banks usually do not perform such rate of return analysis (and will assume the commercial risks of the loan) a cut off limit or other arrangement may be negotiated which would not require commercial banks to perform rate of return analyses for projects below a certain cost or for projects of a certain type.

2. Industrial Estates

The countries of the Caribbean are presently subsidizing occupants of the industrial estates through low rental rates. These rates reflect the competition for investment among the islands and the commonly held belief that this type of subsidy is essential to attract industry. The conclusion of RDO/C, the CDB and the consultants who evaluated the program is that such levels of subsidy are not warranted and that an economic rent should be charged. Therefore, the CDB has agreed to encourage Governments to eliminate or sharply reduce the subsidies as soon as possible, seeking at least a rental rate that would be adequate to service debt and provide adequate maintenance. Therefore, the CDB has also agreed (to a covenant) to make every effort to harmonize industrial estate rental policy in the region and to move toward a lowering of subsidies.

4. On-Lending Rates

a. Unless otherwise agreed, the CDB will on-lend for industrial estates at 4%, to DFCs at 4%, directly to industry at 10½%, and to commercial banks at a rate of 4 - 6%, depending on the Government's commission for taking the exchange risk.

b. DFCs will on-lend at rates approximately commerical lending rates, 10% to 12% depending on the country.

c. Commercial banks will on-lend at prime rates or higher depending on how they rate the client, the project, and collateral.

5. Financial Plan

a. Project Cost Estimates

The summary project activities, level of effort and funding is estimated as follows:

ILLUSTRATIVE SOURCE AND USE OF LOAN GRANT FUNDS

(US$000)

LOAN	AID	CDB 1/	OTHER 2/	TOTAL
Direct Lending				
Industrial Estates	3,000	90	600	3,690
Industrial Projects	1,500	45	300	1,845
	4,500	135	900	5,535
On-Lending				
DFCs & Commercial Banks	3,900	235	780	4,915
Grant				
Small Business Advisors 3/	800	100	370	-
Technical Assistance 4/	600	40	-	340
	1,400	140	370	1,910
Total Project	9,800	510	2,050	12,360

1/ Includes Loan Administration at 3% for Direct and 6% for on-lending activities. TA support in the recruitment and backstopping of SBA's.

2/ Assumes 20% of loans by others for counterpart contributions.

3/ Requires some 22 person years of support to the local financial institutions. 10% annual contingency and inflation factors have been included in the Technical Assistance Grant portion. See Annex VIII-]

4/ Provides for some 238 person-months of assistance.

Forty-six percent of the project inputs will be channeled through financial intermediaries to entrepreneurs of the region. Based upon an average sub-loan of $10,000 (see Annex II-4) some 500 sub-loans are expected to be developed. The CDB's direct lending and industrial estate development activities are expected to provide funding for some 15 sub-projects averaging $30,000 each.

This input/output relationships is further demonstrated by the following table:

Costing of Project Out/Input

(US$000's)

Project Inputs	Project Outputs[1/]				
	No. 1	No. 2	No. 3	No. 4	Total
AID Loan Funds		3,000	5,400		8,400
Grant Funds	400			1,000	1,400
CDB Expenses	50	90	280	90	510
Governments & Sub-Borrowers	370	600	1,080	-	2,050
TOTAL	820	3,690	6,760	1,090	12,360

1/

No. 1 The increase of viable and effective lending facilities by which the CDB on-lends to small and medium industries.
No. 2 Financial support for the development of industrial estates.
No. 3 Sub-loans providing credits to small and medium industry.
No. 4 Strengthening of the entrepreneurial and managerial capacity in the region.

B. ECONOMIC ANALYSIS

1. Macroeconomic Policy Framework

The CDB-member countries participating in this project with the exceptions of the small Turks and Caicos and British Virgin Islands are also members of the Caribbean Economic Community (CARICOM). CARICOM is a regional association of states designed to foster general economic development, with a strong accent on the creation of employment, and to reduce the region's external depandence. The process of harmonizing trade and monetary arrangements has been at the heart of the integration efforts over the past decade. Under the CARIFTA Agreement (CARICOM's predecessor) in 1968, tariff and non-tariff barriers between member countries were reduced or removed, and some tentative steps were taken towards fiscal harmonization. The CARICOM treaty of 1973 proposed the establishment of a single regional market with a common external tariff for imports from non-member countries and common policies for the economic development of the region, including cooperation in monetary policy, harmonization of industrial incentives and fiscal policies in general and regional planning for agricultural and industrial development. Agreements establishing the Common External Tariff (CET) and setting out harmonized fiscal incentives to industry were also signed in 1973; in the same year, a unified system of tax concessions on exports was set up. In 1978 the CET was modified to rationalize rules determining whether goods are treated as being of CARICOM origin.

Investment incentives offered within the CARICOM framework consist of fiscal incentives (profits tax holidays and tariff exemptions), intra-regional trade advantages and Caribbean Development Bank credit lines. In most cases investors in the LDCs are given more favorable treatment than those in Guyana, Jamaica, Trinidad and Tobago. Investors in Barbados benefit from an incentives regime that lies somewhere between that of the LDCs and the other MDCs.

Although private investment, both local and foreign, is officially welcome in all CARICOM member countries, some countries are clearly more receptive than others. The distrust and hostility toward the private sector in several countries (e.g.Guyana and Jamaica), which established a very uncertain investment climate, seems to have abated somewhat in the past year. Foreign investors are encouraged to seek local participation but this is not mandatory. There is no CARICOM policy on government participation in industry, yet there are partly, or wholly, state-owned industrial ventures in most member countries.

A recent World Bank evaluation of the investment incentives in the region (requested by the CGCED) concluded that CARICOM's harmonized system of fiscal incentives provides a basically sound framework within which the various member countries can pursue their development objectives. The system's main weaknesses lie in the scope for over-protection of import-substitution industries (when applied in conjunction with trade restrictions) and the lack of incentives to non-traditional export industries. The Bank made six specific recommendations for improving the investment incentives. Four of the recommendations largely pertain to tax and tariff policies. Briefly these are:

- Tax holidays should be renewed only when enterprises fulfill employment targets or export much of their output. In the case of an exporting firm, tax relief should be proportional to the share of output exported.

- Tariff exemptions for non-export industries should be phased out to reduce the bias in favor of imported inputs and capital-intensive operations.

- New tax incentives should be established for firms which export at the margin.

- The regional value added definition for goods traded freely within CARICOM should be tightened.

The two other recommendations are particularly relevant to AID's program and are thus quoted here:

- Industrial estates have made an effective contribution to attracting new enterprises to the region. Given existing demand patterns, the CDB might adopt a more flexible attitude towards advance construction (i.e. before a lessee has been found) of at least one factory shell at any one time by those development authorities which want to do so. At the same time, the CDB should encourage harmonized increases in rents in the LDCs to reduce the amount of subsidy currently involved.

- Development finance companies in the LDCs are in need of administrative strengthening and technical assistance for project appraisal purposes particularly. Despite higher interest rates charged, industrial borrowers prefer commercial bank loans, and DFCs tend to get left with funding those projects which the commercial banks have refused. This, in turn, has led to a high proportion of interest and repayment arrears. It is recommended that the CDB provide a new small-scale industrial lending facility (less than $100,000 per project) through the DFCs and possibly the local banks at near-commercial interest rates (with funds available from abroad at concessional interest rates, government and the CDB would jointly subsidize the extra cost of advisory work and servicing of loans). DFCs should also be allowed to make loans for working capital purposes.

These IBRD conclusions are obviously supportive of AID's findings and programming in this sector. AID support for the IBRD recommendations can best be provided on the first four recommendations in the CGCED forum and on the latter two recommendations through this project.

2. Credit for Small and Medium Sized Industry

From an economic perspective, the proposed project attempts to stimulate viable income generating activities and to ensure that a high proportion of the income generated accures to relatively low income groups. To accomplish this, emphasis is placed on stimulating investment in small and medium sized businesses which studies by the World Bank and others have been shown to be labor intensive.

Definition of small, medium and large enterprises vary considerably. A firm with 200 workers and $5 million in assets is certainly not "large" in the U.S. context, but it might be defined as "medium-sized" in Guyana or Barbados and "very large" in many of the LDCs. Other characteristics which might be taken into consideration include the technology utilized, the extent of diversification of outputs, the degree of specialization within the firm and the access to financial markets.

Any criteria for eligibility in this project must reflect the fact that the objective is to extend credit to firms which do not presently have access to commercial credit on satisfactory terms and which will generate substantial employment and income benefits per dollar invested. Most but not all firms which fit this description are "small to medium sized".

The Project Team has rejected, however, the notion of establishing project eligibility criteria based on enterprise size (e.g. sales, employment, capital stock) or on characteristics of the entrepreneur (e.g. net worth). Such criteria might well lead to the rejection of some projects with high employment and income benefits and which would thus contribute significantly to the achievement of the project's purpose and goal.

The Project Team has instead elected to utilize rate of return and capital-labor intensivity criteria. The required financial rate of return on all projects will be 12%. Economic analyses will be conducted only on larger projects (over US$100,000) financed directly by the CDB. Requiring economic analysis on small projects handled by local financial intermediaries would require significant increases in staffing and lengthen the project appraisal process which in fact needs to be streamlined. Moreover, the CDB's experience suggests that factor price distortions are such that a project with an acceptable financial return rarely fails to meet economic criteria.

The capital-labor intensivity criteria to be utilized will be defined in terms of fixed investment per job created. This measurement can be considered a rough proxy for the capital/labor ratio. The upper limit on investment (in 1979 prices) per permanent job created will be US$10,000. Permanent jobs are defined as those expected to continue throughout the life of the capital, which is assumed to be 15 years. The $10,000 limit may be adjusted to "15 year job equivalents" if the life of the capital varies from this norm. The $10,000 level might thus be better stated as $667 of capital per worker per year. A project in which the capital lasts only 10 years should not require more than $7,300 per job created. The $10,000 level will be adjusted in current dollars to maintain its constant value.

The $10,000 level is based on an analysis of current investment rates in the participating countries. That analysis, summarized in Annex V-1, uses national income data, gross national investment rates and labor force participation rates to estimate annual national investment per participatant in the labor force. The resulting values range among participating countries from $233 in Grenada to over $900 in Barbados. As it would not be politically or administratively feasible for the CDB to apply different standards to each of the participating countries, the weighted average has been used as a basis for a common criteria. The weighted average of current investment in 1977 prices is estimated to be $521 per worker, or, assuming a 15-year life of capital, $7,826 per job. In 1979 prices, these figures would be approximately $635 and $9,500 respectively. The $10,000 investment/permanent job criteria that the project has adopted is only slightly above the current mean.

Judging from past experience*, the DFCs should have no difficulty staying within the $10,000 limit. Past performance suggests that the average level of investment/job will be approximately $5,700 in 1979 prices. If this average is maintained over the project period**, AID's $3.9 million with $0.8 million in counterpart contributions will result in the direct creation of about 840 permanent jobs. Assuming a 10% annual inflation, the average investment cost per job will increase to about $7,700 in current 1982 prices, and indirect lending over the 1979-82 period can be expected to produce about 720 permanent jobs.

The CDB's direct industrial lending financed under the project will be aimed at somewhat larger firms, but will utilize the same $10,000 per job criteria. Sub-projects financed under this component are expected to average about $7,000/job in 1979 prices. If this average is maintained over the life of the project, the $1.5 million of AID funds together with approximately $300,000 in counterpart funds is expected to generate approximately 260 new jobs for West Indian workers. Assuming the average cost/job raises by 10% annually, approximately 220 new jobs would be generated by 1982.

These two programs of lending to productive enterprises are thus expected to directly generate from 940 to 1100 permanent jobs by 1982. In addition, these project activities will generate a

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* An analysis of employment creation under the existing CDB/DFC Small Industry Credit Program is contined in Annex V-2.

** By using the CDB's Technology Information Unit, it may in fact, be possible to lower cost per job.

considerable amount of direct employment and income in the construction industry and indirect employment and income in enterprises supplying raw materials and intermediate goods and providing transport, marketing, insurance and other services to project-financed activities.

In addition to meeting the above mentioned tests which are designed to ensure a substantial employment and income benefit, the project will introduce a change in interest rate policy which will favorably impact on the allocation of project funds and on the viability of financial intermediaries. This change will occur in the rate the DFCs charge to their clients.

Under past programs the DFCs borrowed from the CDB at 4% and on-lent to their industrial clients at 8%. The 8% rate is approximately equal to the prime rate offered by commercial banks, but is not a rate which covers the costs of lending to the DFCs'clientele of small, inexperienced businesspeople. The DFCs have thus been programmed to operate at a loss even when they have financed viable projects. Moreover, the availability of subsidized rates has encouraged the allocation of funds to politically favored clients. Removing the subsidy will eliminate this incentive and result in an allocation based on the project's merits. It will also contribute to the financial viability of the DFCs.

Under the proposed program, the CDB will require that project funds be on-lent at rates not less than commercial banks are charging for non-prime, industrial lending. At the present time, this rate is about 11-12%.

3. Industrial Estates

The economic benefits which will result from the planned AID/CDB financed industrial estates promise to be considerable. Interviews with investors indicate that the availability of factory shells is often an important consideration in making an investment decision. This is particularly true of foreign investors who prefer to minimize their overseas fixed assets and local investors for whom no other space is available.

In an effort to assess (and where possible quantify) the impact of the CDB's industrial estate lending program on key economic variables, RDO/C recently commissioned an independent evaluation of projects financed under previous AID/CDB programs and the demand for additional projects. Data were obtained on 8 industrial estates and 26 manufacturing firms. The result of this study, summarized in Annex V-3, show that industrial estates have had a substantial beneficial impact on output, employment and the balance of payments.

The parameters established in the evaluation of past performance can be utilized to project the effects of the proposed program. Use of this methodogy suggests that the additional $3.0 million investment in industrial estates is likely to generate some $4.5 million in private investment in machinery and equipment and $1.6 million in inventories. Total fixed investment is thus expected to be about $7.5 million. If the $7,200 investment per worker rate is maintained, these investments can be expected to directly create permanent employment for some 1,050 workers by 1982 or 1983. If the average increases by 10% annually, about 900 jobs will be generated during this period. The annual contribution to the region's GDP is expected to reach $6.5 million by 1983. Secondary or indirect employment and income effects will also be generated. The balance of payments will be favorable, and the fiscal effects, particularly if rental rates are raised, should be favorable as well.

4. Conclusions

The above analysis has indicated that the planned investment will generate about 1,850 permanent jobs and generate substantial amounts of increased income. As a result, the Project Team is satisfied that the benefits of this project will substantially exceed the costs.

It should be noted, moreover, that the analysis of employment has focused only on the direct, permanent increases in employment and income resulting from the initial use of AID's loan funds. During the disbursement period the project will also generate more than 1,000 man-years of employment in the construction, create a demand for (and employment and income in the production of) local raw materials, intermediate goods, services and public utilities, permit increased consumption levels by the families of newly employed workers, generate savings in firms and households which will lead to secondary rounds of investment, and result in other linkage and multiplier effects. Further, the investment which created these effects will be recouped by the financial intermediaries and, because AID is not requiring immediate repayment, will be relent for similar purposes. The effects of the AID assistance on income, employment and other key variables will thus continue to increase after the initial disbursement period examined above.

C. INSTITUTIONAL ANALYSIS

1. Caribbean Development Bank (CDB)

The CDB as borrower and administering agency, will have primary responsibility for overall administration and coordination of the Employment/Investment Promotion Loan/Grant. The CDB will coordinate the efforts of other local and regional institutions involved in the implementation of individual sub-projects. In addition, the CDB will be responsible for coordinating technical assistance to participating institutions. As described in Annex VI-5 the CDB has had experience in similar activities considered necessary for implementation of this Loan/Grant.

a. CDB Background

The CDB, which is an associate institution of CARICOM, was established in 1970 by 16 regional member countries and the UK and Canada. The United States is not a member of the Bank but has contributed a sum of US$70 million to the CDB in the form of soft loans and grants. Venezuela and Colombia became members of the Bank in 1963 and 1974, respectively. The Bank's Charter states that the main objective of the Bank is to contribute to the economic growth and development of its member countries in the Caribbean and to promote economic cooperation and integration within the Region. The Charter places emphasis on the Bank's role in meeting the needs of its LDC member countries.

b. Organization (See Annex VI-1)

The Board of Governors is the highest policy-making body of CDB and is constituted of representatives from each member country (except for Montserrat, British Virgin Islands, Cayman Islands and Turks and Caicos Islands who collectively elect one governor). The Board of Governors meets annually. Voting power is roughly proportionate to shares subscribed with a slight weighting in favor of the LDCs.

The Board of Directors is composed of 11 members appointed for renewable two-year periods. The non-regional members are represented by two of the 11 directors. The Board of Directors meets at least every two months and is responsible for general policy and the direction of Bank operations, approval of Bank administrative budget, and submission financial statements for Board of Governors' approval. All loans, grants, guarantees and other long-term investments by the CDB require Board of Directors' approval.

CDB formally put into effect on January 1, 1979 a reorganization of their operations. The main features of the reorganization was integration of the former Project Divisions of Agriculture, Industry and Technical into a new Project Department and the renaming of other Divisions of the Bank as Departments. As a consequence of this reorganization some delays in project implementation occurred. These start-up problems have been worked out and CDB is once again progressing in all areas of project development and implementation. The reorganization will in the long-term strengthen the Bank's capabilities in project implementation by providing its project staff with autonomy from the Bank's administrative activities. It has also elevated the DFC responsibility to a distinct and separate function.

c. CDB's Project Department

The newly organized Project Department will be implementating this project within the CDB organization. As reorganized the Project Department can immediately react to project implementation problems with various technical disciplines unhampered by the previous administrative organization of the CDB.

The Project Department consists of four functional divisions and a loan supervision unit. These divisions are in the areas of Agriculture, Industry, Infrastructure, and Project Design and Analysis.

The following is a summary of redefinition of the functions and responsibilities of the Project Department:

> "Undertakes surveys, pre-appraisal and appraisal of projects in the areas of agriculture, infrastructure, manufacturing, housing, tourism and industry; supervises the execution of project approved by the Board of Directors; servicing of the Loans Committee; loan negotiations with perspective borrowers; loan supervision and student loan scheme; identification and planning of sector related technical assistance projects; monitoring of developments in various sectors of economy and to carry out in coordination with the Economics and Programming Department sectoral studies and regional surveys; provides technological information". Source CDB Reorganization Summary, January, 1979.

The Project Department consists of 53 professionals. Two of the four Divisions within the Projects Department will play a major role in project implementation. The Industry Division will have day to day functional and operational control of implementation and the Project Design and Analysis Division, responsible for the TIU, will provide evaluation support to identified sub-projects.

The Industry Division is headed by a Deputy Director reporting directly to the Director of the Project Department. See Annex VI-4 . Two Assistant Directors reporting to the Deputy are responsible for 1) the DFCs and 2) industrial estates and direct lending activities. Elevation and recognition of the DFC monitoring function within the Bank's organization is in keeping with the new emphasis and commitment of the CDB to assist in making the DFC's functioning instruments of their on-lending program. The industrial estates and direct lending activities are staffed and prepared to continue the on-going activities. The Industry Division is staffed with 10 professionals (Project Officers) all of whom are experienced in the activities and needs of small industry. These professionals are further supported by three professionals in export promotion and marketing and a specialist in technical assistance.

The CDB has recognized the difficiencies in its on-site support caused by its Barbados based professional staff. With the Grant assistance provided by this project the CDB will extend its on-site technical assistance and advisory services to the individual countries.

The Project Design and Analysis Division is responsible for the social, economic, environmental and technological analyses of all projects appraised by the CDB. It presently consists of a staff of 5 professionals. As a result of new emphasis reflected in the CDB reorganization this Division is expected to increase to 10. This Division will offer close support to the Industry Division because of its management of the Technology Research Fund and TIU. The TIU provides a broad resource base for project support. Recently the TIU plugged into the U.S. National Technology Information Service providing access to even greater resources.

Based upon the above organization and the added grant technical assistance, the CDB will be equipped to implement the Industrial Lending Program contemplated under this project.

d. Status of Prior AID Loans with the CDB

AID has provided six prior loans to the CDB totaling $66.9 million. These loans are 66% committed and 51% disbursed. The status of these loans as of 4/30/79 is summarized below:

Loan No.	Date Executed	Terminal Disbursement Date	Amount	Commitments	Disbursements
538-L-001	12/70	6/30/77	10,000	10,000	10,000
538-L-002	11/72	12/31/78	8,400 1/	8,400	8,400
538-L-003	5/73	12/31/79	12,000	12,000	5,788
538-L-006	6/76	10/30/80	10,000	4,676	379

(Con'd next page)

1/ After deobligation of $1.9 million for over estimated housing needs.

Loan No.	Date Executed	Terminal Disbursement Date	Amount	Commitments	Disbursements
538-L-007	3/78	12/14/83	6,500	-	-
538-008-11 CDF	9/78	6/30/80	20,000	9,296	9,296
			36,900	44,372	33,863

The first two AID loans to the CDB are fully disbursed. In the past six months the rate of disbursement under the CDB loans was slow, largely due to the reorganization within the CDB and the lack of institutional capacity of its financial intermediaries. A large part of the CDB's efforts continues to be directed at assisting the LDC's in improving DFC operations and providing staff support to the development and implementing CDB projects. The CDB has demonstrated its capacity to analyze and implement sub-projects and some of the LDC institutions, in varying degrees have improved their effectiveness.

Based on current projections of disbursements, the remaining third of the earlier AID loans is expected to be fully disbursed by the current terminal disbursement date (TDD). The sluggishness of commitment of Loan 007 can be attributed to the lack of national institutions project identification and CDB's apparent reluctance to actively seek out projects. The CDB reorganization and increased emphasis on agro-business are helping to alleviate this limitation. The CDB is presently exploring the possibility of utilization of PVO's and/or LAAD to identify additional sub-projects. Based upon recent intensive analysis by the CDB and RDO/C of project activity, projects requiring some $4 to $5 million have been identified for possible financing under Loan 007. Additional promotional work and studies scheduled this fiscal year are expected to result in the full commitment of all of these loan funds by the second quarter of FY 80. See Annex II-2 for additional information on related AID projects and other donor activities.

2. Institutional Financial Analysis

a. The Caribbean Development Bank

The authorized capital of the Bank expressed in current dollars is $231,618,816 comprising callable shares of $171,301,416 and paid up shares of $60,317,400. The callable shares are subject to call as and when required by the Bank to meet obligations incurred in OCR operations. The paid up shares are payable by installment. The CDB conducts two financial operations: ordinary capital operations (OCR) and special funds operations (SDF). The latter, in fact consists of several separate funds. Each type of fund must be kept separate according to the Bank's Charter and is expected to generate sufficient income to cover administrative and operational costs. Total net income, from all funds, after deducting the contribution to Special Reserve amounted to $4.2 million for the year ended December 31, 1978. The total resources of the Bank, including all funds, amounted to $259 million and consisted of share capital, reserves, borrowings and funds administered in trust. Total loan approvals were 180 million, of which $97 million or 54% has been disbursed as of the end of the year.

Looking at OCR operations as of December 31, 1977, the financial situation of the OCR was sound and solid. Total assets had reached 63.4 million. Its capital and reserves amounted to 39.3 million and its borrowings totaled 18.6 million. The relation of outstanding loans to total assets ($22.0 million/$63.4 million) is increasing, indicating improved capacity to place its resources in loans rather than having to invest them. Short term investments at 26.3 million (compared to outstanding loans of 22.0 million), although still high represents a significant improvement over 1977. The ratio of debt to capital and reserves was very low but will increase as a result of the utilization of borrowings already contracted. On its Ordinary Capital Resources operations, the CDB realized a net income of $1.7 million during 1978, compared with $2.3 million in 1977. Increased utilization of borrowed funds and exchange losses due to reserves held in Sterling account for this decrease in income. The combined gross financial income from loans and short-term investments of its OCR operations cover the financial and operational costs without depending on external contributions. Commission, guarantees and fees earned on loans made out of the OCR are transferred to a Special Reserve which is kept for meeting liabilities of the Bank.

The CDB does not make a specific provision for possible loan losses, but it includes in its Capital and Reserves accounts an Ordinary Reserve, which on December 31, 1978, amounted to $6.5 million, compared with 4.3 million in 1977, to cover losses arising from loans and currency devaluations.

As of December 31, 1978, the financial situation of SDF resources indicate a continuous growth. The percentage of loans to total assets has increased from 10.8% to 61.0% in 1978, indicating an increasing ability for developing and carrying out credit operations. Net income earned during 1978 amounted to $1.5 million, compared with $1.3 million in 1977. In 1978, Gross Income on loans and investments amounted to $2.9 million, compared to $2.5 million in 1977. Total assets of the Other Special Funds also shows a continuous growth going from $1.5 million on December 31, 1973, to $56.5 million on December 31, 1978. Average outstanding SDF's Loans as of December 31, 1978, amounted to a total of 36.2 million.

b. The DFCs

The CDB has actively encouraged and assisted in the establishment of national DFCs to help reduce its administrative burden and make the various credit schemes responsive to local needs. Over 40% of existing CDB loans are channelled through these financial intermediaries. The capacities of these institutions, however, vary considerably between the LDCs in terms of management, staffing and financial and physical resources. Most Development Finance Corporations were handicapped from the very beginning by severe under capitalization, inadequate operating margins, and a lack of experienced technical personnel.

The financial viability of the DFCs is a serious issue; with the exception of Belize, most have no possibility of reaching commercial viability in the near future. This is because for most DFCs the volume of operations is limited by island size to a level too low to cover operating costs. This financial situation has been exacerbated by on-lending rates that are below commercial rates; and by exceedingly poor arrearage rates on collections of sub-loans. (See Annexs VI-7.8,9 for a summary evaluation of each DFC and suggested solutions to achieve viability). There are possibilities, however, that in addition to Belize, three DFCs (Antigua, Dominica and St. Lucia) can be developed into effective credit channels for small and medium business provided they charge rates approximate to commercial lending rates, improve collections, and receive a guaranteed subsidy from their Governments. These shall be part of the financial criteria by which the CDB and AID shall assess the eligibility of DFCs to utilize AID funds.

c. Commercial Banks

The commercial banks present no issue of commercial viability since a criteria for their participation will be a financial analysis showing their ability to cover commercial risks for the amount of credit to be made available. Each of the MDCs and LDCs has at least two, and as many as six, branch banks of foreign-owned commercial banks such as Bank of America, First National City Bank of New York, Barclays Bank International Ltd., Royal Bank of Canada, and Bank of Nova Scotia. Most of the LDCs have a Government Savings Bank, Commercial Bank and a Cooperative Bank. (See Annex VI-10 for a complete listing).

d. On-lending Institutional Status

The following is a survey of the financial institutions and their prospect for participating in this project:

Country	DFC	Commercial Bank
Antigua	improving through CDB's T.A. efforts, expected to participate	
Barbados		commercial banks have indicated an interest.
Belize	DFC is operational and viable	
BV, Cayman an Turks & Caicos Islands		Barclay's or Royal Bank have expressed interest.
Dominica	DFC responding to CDB T.A. support, expected to participate	
Grenada	The DFC is not effective. No decision has been made however, Grenada could utilize commercial banks such as Barclay's, Royal Bank or co-operative bank.	
Guyana		The Central Bank and commercial banks have shown interest in participating in the commerical program.
St. Kitts/ Nevis/Anguilla		probably will utilize national commercial bank.
St. Lucia	No decision, DFC is a possibility if proposed merger is successful. Both the government and commercial banks interested in experimental program.	
St. Vincent	No decision, management difficulties within the DFC suggest using the experimental commercial banking channel.	

D. SOCIAL ANALYSIS

1. Social Organization - An Overview

The countries constituting the Commonwealth Caribbean are experiencing a state of rapid social change. Today's conditions reflect a blend of a fading colonial plantation system and an emerging society which increasingly is being drawn into the modern world economy. This emergence expresses itself in all levels of society from the family to the nation. The manner in which social classes relate to each other reflects best the full significance of Caribbean social development. Although their economic control in all sectors is still significant, the power of the European planter class in the Caribbean social order has declined. In addition, there has been an upward advancement of non-white professionals, businessmen, and politicians resulting in an expansion of the middle class.

Ethnically, Caribbean society reflects a complex patterning of parallel social hierarchies of African, Asian, and European heritage, each with their own upper, middle, and lower class. The bulk of the Caribbean population, however, is still composed of a large segment (50% of the total population) of native small "peasant" farmers, landless agrarian laborers, urban workers, and the unemployed. In comparison to the expanding middle class and existing upper class, these groups are characterized by low per capita incomes, poor health, inadequate housing, and high rates of unemployment and underemployment. Of these restraints to development, the lack of job-opportunities for these groups constitutes the region's major social problem.

2. Project Beneficiaries

Although all levels of Caribbean society stand to benefit from the Employment/Investment Promotion Loan and Grant, two special target groups can be identified: emerging entrepreneurs, and the laboring class, especially recent migrants to urban areas. Given possible differences in interests and values of these two socio-economic groups, planning and implementation of the project will proceed with a sensitivity as to how the two groups relate to each other and to regional Caribbean development. Characteristics of these beneficiaries are significantly varied and as such, will reflect different inputs to the project.

Given the wide range of small to medium industrial enterprises conceivably eligible for support, it is difficult to generalize about the characteristics of potential small scale entrepreneurs. In general, however, it is anticipated that they will be drawn from all ethnic groups of the Caribbean with a disproportinate percentage being from the emerging non-white middle class and the less affluent West Indian population. These various ethnic-racial groups share relatively high levels of "scholastic" education aggressiveness in terms of upward mobility, and an attraction to the consumer benefits of a western-oriented economy. The constraints to their development have been the lack of management skills, business training, and access to credit facilities.

On the other hand, the majority of laborers will be lower class West Indians of African descent. Although reflecting significant regional variation, the rates of unemployment among this group, especially young adults (14 - 24 years of age), are extremely high. This is particularly true in the LDCs where in addition to unemployment the lower class is characterized by high birth rates, high morbidity and mortality, inadequate nutrition and substandard housing. Although an estimated 90 percent of the laborers have completed primary school, many have regressed into functional illiteracy through lack of continued exposure. In addition, a gap exists between educational preparation and the realities of employment opportunities which are often extremely limited. An aversion to rural life and low agricultural pay has stimulated migratory flows from rural to urban areas and to overseas.

3. Constraints - Real and Potential

The region's major constraints to development are the existing political environment, inter-island isolation, and localism. The isolation and geographic smallness of many LDCs foster patterns of local elite possessiveness, inter-island hostility, and powerful localist prejudice. As the failure of the Federation, demonstrates political cooperation between leaders of the various countries has not always been successful. Political actions are frequently based on short-run and locally oriented goals which are often counter-productive to development. Moreover, competition between islands is affected by a relatively high degree of similarity in human and natural resources.

Entrepreneurs - Motivation and aggressiveness among small entrepreneurs pose fewer problems than the lack of operating capital and inexperience in small business management. Businessmen - as all West Indians - are often caught in a web of kinship obligations which may place demands on reinvestment capital and pressure them into nepotism thus hampering wise hiring practices. Moreover, it is common that existing financial institutions are hesitant in providing investment capital due to the absence of collateral and/or demonstrated experience in the venture to be undertaken. In constrast to these constraints, businessmen are often familiar with the work styles of industrial economies and with the difficulties in work scheduling and daily operational tasks.

Laborers - The effective integration of rural populations into industrially related activities must proceed with the realization that such workers are largely inexperienced in the daily routines of urban-industrial life. The year-round 40 hour week, with its five day intensity and shift patterns will require new adaptations and habits. Similarly, the required social transition from the small, intimate, circle of kin to the demands of an impersonal, regulated lifestyle will require some adjustment. Family pressures will remain intense and management must be sensitive to such obligations facing workers. Inexperience in industrial work, shift operations and the new orientation required of laborers can be surmounted as productivity progresses. Given real incentives[1] to regular work habits (i.e. decent pay, regular advancement, employment benefits), other potential restraints should be no more than minor obstacles. Given a lack of empirical knowledge about small enterprises, entrepreneurs, and the attributes of workers, the development of regional small and medium scale industrialization will require knowledge of credit needs, enterprise-specific problems, employment incentives, selective employment, etc. Throughout all stages of industrial development, it will be necessary that the project be aware of and responsive of these factors:

(a) Active commercial bank involvement in local small and medium industrial development;

(b) Increased responsiveness to the financial needs of local industrial development by the DFCs on selected financial institutions;

(c) Small business advisory services related to appropriate regional industrial development;

(d) Increased responsiveness to local industrial development by the CDB; and

(e) Increased annual commitment of new lending resources for small and medium enterprises.

4. <u>Role of Women</u>

Labor force participation among females in the region are much lower than for working ages males (the ratio of males employed in 1970 was 2.6 times greater than females) (see Annex VII-2). Reasons for the low female participation are directly related to the family pattern of early teenage pregnancy and marriage. Moreover, women working in urban establishments and as domestics have continuously received low wages. They remain poorly represented in managerial positions, white collar jobs, public service, and the teaching profession. Modernizing influences, however, are beginning to redefine the womem's role in Caribbean Society. Women are especially important to the employment generation program since they tend to define their children's future educational and career goals. The project will support the expansion of employment opportunities of women. As has been proven in the region's enclave industries, women are particularly adept in refined assembly line work (e.g. food processing, electronics, packing, garment works). Among the 26 firms in the industrial estates recently studied by Clapp and Mayme, eleven are sewing operations and five are electronic assembly, both of which employ women almost exclusively as production workers and supervisors. It is expected that women will continue to be employed in the newly created industrial firms at both supervisory and worker levels.

1/ These incentives in the region are real and positive due to the strength and tradition of organized labor throughout the region. This will also be evaluated during annual reviews.

PART V. IMPLEMENTATION PLAN

A. SCHEDULE OF MAJOR EVENTS

DATE	ACTION	RESPONSIBLE PARTY	NOTES ON IMPLEMENTATION
June '79	1. Loan Authorization	RDO/C	
June '79	2. CDB Board Approval of project	CDB	Board Meeting June 21, 1979.
June '79	3. Execution of Loan Agreement	RDO/C and CDB	Loan/Grant signed in Bridgetown.
Aug. '79	4. Financial Institution Selection Criteria, prepared and approved	RDO/C and CDB	CDB will prepare selection criteria based on that developed in the PP and submit for RDO/C approval.
Sept. '79	5. Implementation Activities begin	CDB	CDB will conduct discussion with the Development Finance Corporations, government institutions and commercial banks on the Employment/ Investment Promotion Project stressing the Sub-project and institutional criteria. Begin recruitment of Small Business Advisors.
June '79 - Continuous on-going	6. Sub-project identification	CDB and DFCs	Loan applications, project identification teams, Industrial Estates Development.
June '79 - Continuous on-going	7. Pre-investment Studies	CDB	Where specialized expertise is required for larger studies, CDB will contract under Technical Assistance Funds, i.e Instutional Development or TRF. Smaller studies will be performed by CDB staff.
July-Aug-	8. Sub-project technical assistance to small and medium enterprises	CDB and Financial Institutions as qualified	Where practicable, usually for smaller enterprises, CDB's Industrial staff will provide technical assistance services. For continuous on-going T.A. S.B.A. hired and on-site. Other T.A. to be funded as in 7. above.

Dec '80	9. Annual Evaluation	CDB and RDO/C	CDB develops from semi-annual reports a scope of work for the annual evaluation,if feasible, contracts with appropriate institutio to have it completed.

B. DISBURSEMENT PROCEDURES

Disbursement procedures will be handled in the same manner as prior Loans and Grants to th CDB:

1. Local Currency - Disbursement for local currency expenditures will be made under direct reimbursement authorizations (DRA). A DRA will be established for the projected local currency disbursements for enterprise credit, technical assistance and equity investment in enterprises. The CDB will submit requests for reimbursement on at least a quarterly basis with supporting documentation to be prescribed in implementation letters. Under each DRA, the CDB may request an advance of funds based on the estimated disbursement for a three-month period.

2. Foreign Exchange - Disbursements for foreign exchange expenditures will be made under the letter of commitment/letter of credit procedure for all individual procurements of goods or services which exceed $15,000. Disbursements for individual off-shore procurements for less than this amount may be made through the DRA procedure described above.

3. Other - Disbursements of the Bank may also be made through such means as CDB and AID may agree in writing.

C. PROCUREMENT PROCEDURES - CDB Procurement Procedures will be utilized to the extent they do not conflict with AID statuatory restrictions.

Goods and services financed under the project will have their source and origins in countries included in code 941 for the loan and code 000 for the Grant of the AID Geographic Code Book or in the country in which the sub-project is located. Procurement in the country in which the sub-project occurs shall be defined as local procurement.

As with prior AID loans to the CDB, CDB will seek to negotiate mutual untying agreement with other donors for current replenishments to the CDB.

D. SUB-PROJECT DEVELOPMENT, IMPLEMENTATION AND MONITORING. CDB

The development and analysis of project is performed by *ad hoc* multi-disciplinary teams with an appropriate mix of expertise. CDB's appraisal techniques include analysis of the technical, financial and economic feasibility of a project, its organization and management, services that can be provided by supporting organizations, soundness of relevant marketing and legal arrangements and rate of return as compared with alternative project. See annex VI - 4

Project implementation is the responsibility of a project manager within the industrial division assisted by the various support division and other technical divisions as needed. CDB project implementation reports are prepared on a quarterly basis and submitted to RDO/C on a semi-annual basis.

Based on AID's prior experience in reviewing CDB projects, it is concluded that the CDB has the necessary expertise and capability to administer the proposed program. This would include, where appropriate, the ability to contract for and administer services of consultants to perform specialized analyses or to provide technical assistance to sub-borrowers which the Bank may not be equipped to undertake.

RDO/C

Because of the intermediate credit institution nature of the project, RDO/C's role in the administration of the project will premarily involve the approval of plans, programs, sub-projects of more than $500,000 and the evaluation of the overall program.

E. ENVIRONMENTAL IMPACT

A Negative Determination has been recommended in the initial Environmental Examination (see Annex I-4.) The factors leading to this recommendation are the relative small size of the sub-projects, the requirement of sound technical design and CDB's previous experience and analysis of similar sub-projects.

The CDB and ICI's will review the small business and industrial activity considered and supported by this loan to ensure that they will have no environmentally hazardous effects. Each sub-project proposal in excess of $100,000 will be analyzed by the CDB as a part of the feasibility study for any special requirements regarding its potential impact on the environment.

F. REPORTS

Reports will be submitted to RDO/C on a semi-annual basis. The first report will be submitted six (6) months after conditions precedent are met.

The semi-annual reports by the CDB will be consistant with those provided under Loan 003, and will consist of the following basic information and may be expanded to provide clarification:

- Project supervisions report
- Tabulation of sub-loans approved
- Sub-project description
- Loan Funds
- Jobs created

- Implementation status
- Problems
- Summary progress report by country of sub-loans
- Reports of the Small Business Advisor.

G. EVALUATION

The project impact on the region will be jointly evaluated by AID and the CDB on an annual basis during the project's four year life in coordination with the activities and evaluation of the 1978 Employment/ Investment Promotion Grant. The first evaluation will be performed one year after the meeting of the conditions precedent. Although all of the evaluations will examine the appropriateness and effectiveness of the project relative to project objectives, the first evaluation will focus on the administrative aspects of the program (organization, disbursements and technical assistance achievements) to permit early identification and resolution of any implementation problems.

As of the second evaluation technical assistance support will have generated sufficiant information to begin evaluation of the project outputs and purpose achievement. The second evaluation will be based on the following:

Target Levels

Sub-project benefits, in terms of income and employment, will be provided by the analyses which the CDB and financial intermediaries will prepare for each sub-project.

Progress Data

As part of the annual review a representative sample of sub-projects financed with loan funds will be surveyed to determine estimated target group impact. This will be compared to the projections of the project analyses contained in the CDB project appraisals. Evaluation data to be collected on each project selected for examination include:

- The efficacy of CDB/Financial Institution's effort under the project;
- Status of Industrial Estate subsidy re-evaluation;
- Change in the the on-lending institutions organization and procedures, mechanisms of on-lending, identification of bottlenecks, revision and suggested implementation of the operational changes;

- Adequacy of the sub-project to effectively expand the use of regional resources;

- The problems or efficiencies generated by the Small Business Information Advisor;

- Success in implementing sub-projects as scheduled;

- Competence and effectiveness of management and technical personnel provided;

- Success intransferring technical and management skills to the region.

The third or end of project evaluation requires consideration of factors which are both quantative and qualitative:

- the plans for expansion of the Industrial Development activities;

- the adequacy of financial institutional arrangements;

- the status of implementation of the various recommended improvements to the on-lending programs of the region.

Annex I - 1

CARIBBEAN DEVELOPMENT BANK
P.O. Box 408 Wildey
St. Michael Barbados W.I.
Telephone: 61152 Cable Address: "Caribank," Telex WB 287

30th May, 1979

MAY 31 1979

Mr. William Wheeler,
USAID Representative,
USAID Regional Development Office/Caribbean
Trident House,
Broad St.,
BRIDGETOWN

ACTION ....
DUE DATE ..6/8/79..
ACTION TAKEN
..Hold for PP........
DATE ...5/30/79.......
SIGNATURE ....

Dear Mr. Wheeler,

As you know, my staff and yours have been carrying out detailed discussions on an Employment Investment Promotion Programme for the Region. This letter is to formally request a grant of US$1,400,000 and a loan of US$8,400,000 to support the establishment of the Programme in the Bank.

The Programme is designed to increase investment, employment and output of the industrial and infrastructure sectors of the economies of the countries of the English-speaking Caribbean.

We look forward to a favourable reply and to a successful establishment of the Programme.

Yours sincerely,

William G. Demas

William G. Demas
President

STATUTORY CHECKLIST

A. GENERAL CRITERIA FOR PROJECT

1. FY 79 App. Act Unnumbered; FAA Sec. 653 (b); Sec. 634A.
(a) Describe how Committees on Appropriations of Senate and House have been or will be notified concerning the project; (b) is assistance within (Operational Year Budget) country or international organization allocation reported to Congress (or not more than $1 million over that figure)?

The project was included in AID's FY 1979 congresional presentation. Advice of program change submitted on June 6, 1979.

2. FAA Sec. 611 (a) (1). Prior to obligation in excess of $100,000, will there be (a) engineering, financial, and other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

Yes

3. FAA Sec. 611 (a) (2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

N.A

4. FAA Sec. 611 (b); FY 79 App. Sec. 101.

N.A

If for water or water-related land resources construction, has project met the standards and criteria as per the Principles and Standards for Planning Water and Related Land Resources dated October 25, 1973?

5. FAA Sec. 611 (e). If project is capital assistance (e.g., construction), and all U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistance Administrator taken into consideration the country's capability effectively to maintain and utilize the project?

N.A

6.	FAA Sec. 209. Is project susceptible of execution as part of regional or multilateral project? If so why is project not so executed? Information and conclusion whether assistance will encourage regional development programs.	This is a Regional project.
7.	FAA Sec. 601 (a). Information and conclusions whether project will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan assoications; (d) discourage monopolistic practics; (d) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.	The Project contains credit and technical assistance programs for the private sector; they will increase the flow of international trade, foster private initiative, and improve technical efficiency of industry and commerce.
8.	FAA Sec. 601 (b). Information and conclusion on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).	U.S. private enterprise will be utilized to provide technical assistance to the project.

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FAA Sec. 102 (b); 111, 113; 281 a.

Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries?

The Project will stimulate labor intensive production and investment in rural and urban areas through its credit programs to business enterprises.

The project promotes self-help measures by strengthening the public and private industrial sectors in each participating country.

Women are an integral part of the project that they are eligible to receive the credits and technical assistance this project provides.

As a regional project the project promotes regional cooperation.

b. FAA Sec. 103, 103A, 104, 105, 106, 107.

Is assistance being made available: (include only applicable paragraph which corresponds to source of funds used. If more than one fund source is used for project, include relevant paragraph for each fund source.)

(1) (103) for agriculture, rural development or nutrition; if so, extent to which activity is specifically designed to increase productivit and income of rural poor; (103A) is for agricul tural research, is full account taken of needs of small farmers;

(2) (104) for population planning under sec. 104 (b) or health under sec. 104 (c); if so, extent to which activity emphasizes low-cost integrated delivery systems for health,

9. FAA Sec. 612 (b) Sec. 636 (h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized to meet the cost of contractual and other services.

As indicated in the project paper, participating institutions and sub-borrowers are making substantion contributions to the project.

10. FAA Sec. 612 (d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

No

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

Yes

12. FY 79 App. Act Sec. 608. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?

No

nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems and other modes of community research.

(3) (105) for education, public administration, or human resources development; if so, extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, or strengthens management capability of institutions enabling the poor to participate in development;

(4) (106) for technical assistance, energy, research, reconstruction, and selected development problems; if so, extent activity is:

(i) technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations;

(ii) to help alleviate energy problems;

(iii) research into, and evaluation of, economic development processes and techniques;

(iv) reconstruction after natural or manmade disaster;

(v) for special development problem, and to enable proper utilization of earlier U.S. infrastructure, etc., assistance;

(vi) for programs of urban development, especially small labor-intensive enterprises, marketing systems, and financial or other institutions to help urban poor participate in economic and social development.

The Project is designed specifically to increase employment and incomes of rural and urban poor by providing credits to establish or expand industries and businesses which are labor-intensive.

c. (107) Is appropriate effort placed on use of appropriate technology?

The Project utilizes the review procedures established by the CDB for application of appropriate technologies.

d. FAA Sec. 110 (a). Will the recipient country provide at least 25% of the cost of the program, project, or activity with respect to which the assistance is to be furnished (or has the latter cost-sharing requirement been waived for a "relatively least-developed" country)?

This is a Regional project and thus the statute is not applicable

e. FAA Sec. 110 (b). Will grant capital assistance be disbursed for project over more than 3 years? If so, has justification satisfactory to Congress been made, and efforts for other financing, or is the recipient country "relatively least developed"?

No. The Grant portion of this project is for technical assistance.

f. FAA Sec. 281 (b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civil education and training in skills required for effective participation in governmental and political processes essential to self-government.

Reduction of the unemployment levels is a Governmental objective and responds to the rural and urban poor's needs and desires. The project fosters utilization of the Region's natural and applied resources in the encouragement of industrial development. It will assist development finance corporations other credit institutions and subborrowers in labor intensive project development and provide businessmen with access to credit.

g. FAA Sec. 122 (b). Does the activity give reasonable promise of contributing to the development of economic resources or to the increase of productive capacities and self-sustaining economic growth?

Yes

2. Development Assistance Project Criteria (Loans Only)

a. FAA Sec. 122 (b). Information and conclusion on capacity of the country to repay the loan, including reasonableness of repayment prospects.

The CDB, the implementing institution, has the resources by which to repay the loan.

b. FAA Sec. 620 (d). If assistance is for any productive enterprise which will compete in the U.S. with U.S. enterprise, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan?

Direct competition with U.S enterprises is not contemplated.

3. Project Criteria Solely for Economic Support Fund

N.A

a. FAA Sec. 531 (a). Will this assistance support promote economic or political stability? To the extent possible, does it reflect the policy directions of section 102?

b. FAA Sec. 533. Will assistance under this chapter be used for military, or paramilitary activities?

A. Procurement — Yes

1. FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of goods and services financed?

2. FAA Sec. 604 (a). Will all commodity procurement financed be from the U.S. except as otherwise determined by the President or under delegation from him? — Yes

3. FAA Sec. 604 (d). If the cooperating country discriminates against U.S. marine insurance companies, will agreement require that marine insurance be placed in the U.S. on commodities financed? — Yes

4. FAA Sec. 604 (e). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? — N.A

5. FAA Sec. 608 (a). Will U.S. Government excess personal property be utilized wherever practicable in lieu of the procurement of new items? — Yes

6. FAA Sec. 603 (a) Compliance with requirement in section 901 (b) of the Merchant Marine Act of 1936, as amended, that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent that such vessels are available at fair and reasonable rates. — U.S. Ships will be used if available. Appropriate determinations will be obtained from AID/W as to unavailability

7. FAA Sec. 621. If technical assistance is financed, will such assistance be furnished to the fullest extent practicable as goods and professional and other services from private enterprise on a contract basis? — Yes

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

8. International Air Transport. Fair Competitive Practices Act, 1974.

If air transportation of persons or property is financed on grant basis, will provision be made that U.S. flag carriers will be utilized, to the extent such service is available? Yes

9. FY 79 App. Act Sec. 105. Does the contract for procurement contain a provision authorizing the termination of such contract for the convenience of the United States? Yes

B. Construction

1. FAA Sec. 601 (d). If a capital (e.g. construction) project, are engineering and professional services of U.S. firms and their affiliates to be used to the maximum extent consistent with the national interest? Yes

2. FAA Sec. 611 (c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? Yes

3. FAA Sec. 620 (k). If for construction of productive enterprise will aggregate value of assistance to be furnished by the U.S. not exceed \$100 million? Yes

C. Other Restrictions

1. FAA Sec. 122 (e). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter? — Yes

2. FAA Sec. 301 (d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? — Yes

3. FAA Sec. 620 (h). Do arrangements preclude promoting or assisting the foreign aid projects or activities of Communist-bloc countries, contrary to the best interests of the U.S.? — Yes

4. FAA Sec. 636 (i). Is financing not permitted to be used, without waiver, for purchase, long-term lease, or exchange of motor vehicle manufactured outside the U.S., or guaranty of such transaction? — Yes

5. Will arrangements preclude use of financing:

   a. FAA Sec. 104 (f). To pay for performance of abortions or to motivate or coerce persons to practice abortions, to pay for performance of involuntary sterilization, or to coerce or provide financial incentive to any person to undergo sterilization? — Yes

   b. FAA Sec. 620 (g). To compensate owners for expropriated nationalized property? — Yes

c. FAA Sec. 660. To finance police training or other law enforcement assistance, except for narcotics programs?	Yes
d. FAA Sec. 662. For CIA activities?	Yes
e. FY 79 App. Act Sec. 104. To pay pensions, etc. for military personnel?	Yes
f. FY 79 App. Act Sec. 106. To pay U.N. assessments?	Yes
g. FY 79 App. Act Sec. 107. To carry out provisions of FAA sections 209 (d) and 251 (h)? (Transfer of FAA funds to multilateral organizations for lending.)	Yes
h. FY 79 App. Act Sec. 112. To finance the export of nuclear equipment, fuel, or technology or to train foreign nations in nuclear fields?	Yes
i. FY 79 App. Act Sec. 601. To be used for publicity on propaganda purposes within U.S. not authorized by Congress?	Yes

DEPARTMENT OF STATE

AGENCY FOR INTERNATIONAL DEVELOPMENT

Washington, D.C. 20523

PROJECT AUTHORIZATION AND REQUEST FOR ALLOTMENT OF FUNDS

Name of Entity:	Caribbean Development Bank
Name of Project:	Employment/Investment Promotion
Project Number:	Loan 538-W-12 Grant 538-0013A

Pursuant to Part I, Chapter 1, Section 106 of the Foreign Assistance Act of 1961, as amended, I hereby authorize a Loan and a Grant to the Caribbean Development Bank ("CDB") of not to exceed Eight Million Four Hundred Thousand United States Dollars ($8,400,000)(the "Authorized Loan Amount") and Two Hundred and Fifty Thousand United States Dollars ($250,000)(the "Authorized Grant Amount") to help in financing certain foreign exchange and local currency costs of goods and services required for the project as described in the following paragraph.

The project will stimulate increased investment in small and medium sized business enterprises in the Caribbean region. The Loan will provide credits for programs of industrial estate construction, and for the financing of selected projects either through direct relending by the CDB or relending by CDB through local financing entities. The Grant will provide technical assistance to intermediate financial institutions, and small and medium businesses, in conjunction with credit loan funds being administered pursuant to the project.

I approve the total level of AID appropriated funding planned for the project of not to exceed Nine Million Eight Hundred Thousand United States Dollars ($9,800,000) of Loan and Grant funding including the authorized amount during the period June 1979 to December 1983. I approve further increments during that period of Grant funding up to One Million One Hundred and Fifty Thousand United States Dollars ($1,150,000) subject to the availability of funds in accordance with AID allotment procedures.

I hereby authorize the initiation of negotiation and execution of a Project Grant Agreement by the officer to whom such authority has been delegated in accordance with AID regulations and Delegations of Authority, subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as AID may deem appropriate.

I. The Loan shall be subject to the following terms and conditions:

A. Interest and Terms of Repayment

The CDB shall repay the Loan to AID in United States dollars within forty (40) years from the first disbursement under the Loan, including a grace period of not to exceed ten (10) years. The CDB shall pay to AID in United States dollars interest at the rate of two percent (2%) per annum during the grace period and three percent (3%) per annum thereafter on the outstanding disbursed balance of the Loan and on unpaid interest.

B. Source and Origin

Except for ocean shipping, goods, services and marine insurance financed under the Loan shall have their source and origin in any country including in AID Geographic Code 941, or any member country of the CDB except Canada and the United Kingdom unless mutual untying of funds can be established at a later date. Marine insurance may be financed under the Loan only if it is obtained on a competitive basis, and any claims thereunder are payable in freely convertible currencies. Ocean shipping financed under the Loan shall be procured in any country included in AID Geographic Code 935 or any member country of the CDB.

C. Local Currency Costs

United States dollars utilized under the Loan to finance local currency costs shall be made available pursuant to procedures satisfactory to AID.

D. CONDITIONS AND COVENANTS

1. Special Conditions Precedent To Disbursement

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

A description of the criteria to be used to determine the eligibility of lending institutions as intermediate lenders under the project.

2. Conditions Precedent To Additional Disbursement

Prior to disbursement under the Loan, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made to any secondary financial institution, the Borrower will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

(a) An evaluation of the institution by the Borrower with a specific finding as to the institution's viability and its ability to manage sub-loans;

(b) A statement of the procedures and criteria against which the institution will appraise the technical and financial, and environmental soundness of the projects.

3. Special Covenants For Sub-project Lending

Borrower will insure that:

(a) Individual sub-projects costing in excess of U.S. $500,000 will be submitted to A.I.D. for approval prior to their being financed under the loan; and

(b) Prior to approval of financing by on-lending institutions for projects located in Jamaica, that financing is not available from the SSE loan program being financed by the International Bank for Reconstruction and Development, except as AID may otherwise agree.

4. Special Covenants For The Industrial Estates Program (IEP)

(a) Prior to the approval of financing for an industrial estate project, Borrower will use its best efforts to establish with the sub-borrower a financial plan for management of the facility that includes minimum rental rates sufficient to cover loan debt service and maintenance costs.

(b) Borrower agrees to work actively towards the adoption of a common regional policy on industrial estates, particularly as regards the reduction or elimination of rental subsidies.

5. Special Covenant For Use Of Funds

(a) Borrower agrees to provide in sub-lending agreements with intermediate credit institutions that project funds, including reflow, which are not used for project purposes within a reasonable period of time shall be returned to the Borrower for use on other aspects of the program. Funds repaid to the Borrower shall be credited to Borrower's Special Development Fund.

(b) Borrower covenants to use income over and above administrative costs and 2% allocation to reserves from interest spread on AID Funds for technical assistance programs that will stimulate the investment in small and medium business enterprises necessary to increase production and employment in the region.

II. The Grant shall be subject to the following terms and conditions:

A. Source and Origin of Goods and Services

Except for ocean shipping, the source and origin of goods and services financed by AID shall be Code 000 and countries of the English-speaking Caribbean defined as follows: Antigua, Barbados, Belize, British Virgin Islands, Dominica, Grenada, Guyana, Jamaica, Montserrat, Turks & Caicos, St. Kitts/Nevis/Anguilla, St. Lucia, St. Vincent, and Trinidad & Tobago. Ocean shipping financed under the Grant shall be procured in any country included in AID Geographic Code 935.

B. Condition Precedent to Initial Disbursement

Prior to any disbursement or to the issuance of any commitment documents under the Project Agreement CDB shall furnish to AID, except as parties may otherwise agree in writing, in form and substance satisfactory to AID:

(i) A certified statement of the name of the person(s) authorized under the Project Agreement to act as CDB's representative under the Agreement with authenticated specimen signatures of said representatives.

III Waivers

In order to accomplish the objectives of the project and to prevent substantial delay in implementation, it is required that the following AID shipping regulations be waived:

1) Waiver of Geographic Code 000 and 941 for AID financing of Shipping Costs to Code 935

The Caribbean Region and particularly the LDCs which will participate in the project are not able to comply with the normal shipping source requirement. American flag carriers do not call at these islands with sufficient frequency to enable project financed commodities to be secured in a timely manner. Commodities financed are critical to the sub-projects success and their delay in arrival would significantly jeopardize project implementation. The LDCs are well serviced by other Code 935 flag carriers.

2) Waiver of 50-50 Shipping Requirements

Because of the scarcity of U.S. flag carriers servicing the LDCs, it is impossible to ensure that 50% of the gross tonnage and 50% of the gross freight revenue generated by ocean shipment for project goods be on U.S. flag vessels.

Assistant Administrator

Annex I - 4

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT LAC/DR-IEE-78-32
WASHINGTON D C 20523

ENVIRONMENTAL THRESHOLD DECISION

Location : Caribbean Regional

Project Title : Employment Investment Promotion, 538-0013

Funding : $6.3 million loan; $1,676,000 grant

Life of Project: Three Years, starting FY 1978 after signing of Grant Agreement

Mission Recommendation:

Based on the Initial Environmental Examination, the Mission has concluded that the project will not have a significant effect on the human environment and therefore recommends a Negative Determination.

The Latin America and the Caribbean Bureau's Development Assistance Executive Committee has reviewed the Initial Environmental Examination for this project and concurs in the Mission's recommendation for a Negative Determination.

AA/LAC Decision:

Purusant to the authority vested in the Assistant Administrator for Latin America and the Caribbean under Title 22, Part 216.4a, Environmental Procedures, and based upon the above recommendation, I hereby determine that the proposed project is not an action which will have a significant effect on the human environment, and therefore, is not an action for which an Environmental Impact Statement or an Environmental Assessment will be required.

Edward W Coy
Assistant Administrator for
Latin America and the Caribbean

August 24 1978
Date

Clearances:
DAEC Chairman:MBrown
LAC Environmental Advisor:ROOtto Otto

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INITIAL ENVIRONMENTAL EXAMINATION (IEE)

A. Facesheet

Project Location: Caribbean Regional

Project Title: Employment Investment Promotion # 538-0...

Funding:

Life of Project: Three years, starting FY 1978 after signing of Grant Agreement

IEE Prepared by: S. C. Kyner, Capital Project Development Officer

Date: July 20, 1978

Recommended: A Negative Determination. (No Environmental Assessment or Environmental Impact Statement Necessary.)

Concurrence: Dwight B. Johnson July 25, 1978
Dwight B. Johnson, Acting AID Representative Date

Assistant Administrator's Decision: AA/LAC

Approval of Environmental Action Recommended — Date

Disapproval of Environmental Action Recommended — Date

B. IMPACT IDENTIFICATION AND EVALUATION FORM

Impact Areas and Sub-areas 1/	Impact Identification and Evaluation 2/
A. LAND USE	
1. Changing the character of the land through:	
a. Increasing the population	L
b. Extracting natural resources	L
c. Land clearing	L
d. Changing soil character	N
2. Altering natural defenses	N
3. Foreclosing important uses	N
4. Jeopardizing man or his works	N
5. Other factors	
B. WATER QUALITY	
1. Physical state of water	N
2. Chemical and biological states	N
3. Ecological balance	N
4. Other factors	

1/ See Explanatory Notes for this form.

2/ Use the following symbols:
N - No environmental impact
L - Little environmental impact
M - Moderate environmental impact
H - High environmental impact
U - Unknown environmental impact

IMPACT IDENTIFICATION AND EVALUATION FORM

C. ATMOSPHERIC

1. Air additives -- L
2. Air pollution -- N
3. Noise pollution -------------------------------------- N
4. Other factors

______________________ ________

______________________ ________

D. NATURAL RESOURCES

1. Diversion, altered use of water ---------------- N
2. Irreversible, inefficient commitments --------- N
3. Other factors

______________________ ________

______________________ ________

E. CULTURAL

1. Altering physical symbols ---------------------- N
2. Dilution of cultural traditions ----------------- N
3. Other factors

______________________ ________

______________________ ________

F. SOCIOECONOMIC

1. Changes in economic/employment patterns -------- L
2. Changes in population ---------------------------- N
3. Changes in cultural patterns --------------------- L
4. Other factors

______________________ ________

______________________ ________

IMPACT IDENTIFICATION AND EVALUATION FORM

G. HEALTH

1. Changing a natural environment —— N
2. Eliminating an ecosystem element —— N
3. Other factors

______ ______

______ ______

E. GENERAL

1. International impacts —— ______
2. Controversial impacts —— N
3. Larger program impacts —— N
4. Other factors

______ ______

______ ______

I. OTHER POSSIBLE IMPACTS (not listed above)

______ ______

______ ______

______ ______

See attached Discussion of Impacts.

C. Discussion of Impacts: Nature, Scope and Magnitude

Based upon the Initial Environmental Examination for this project, the recommended Threshold Decision is a Negative Determination.

The Employment Investment Promotion Program is planned to enable establishment or expansion of up to 15? small and medium sized Industrial and Commercial businesses with average investment of $70,000. In this category will be small scale assembly industry and other industry with more traditional labor-intensive technologies. The program will establish new employment opportunities for rural and urban poor and carry out institutional reforms in the on-lending institutions. The CDB feasibility analyses of sub-projects of this type include thorough analyses of technical features of proposed designs, operations and management. Its standards on engineering specifications and performance are consistent with standard engineering practice. The Bank's appraisal criteria ensures good environmental husbandry.

The specific sub-project activities under this loan will be selected by the CDB and thus have not been assigned, but because of the nature of the program are expected to have the following characteristics:

(1) The environmental effects will be very limited and localized due to the small to medium size of the enterprises and the wide dispersal of enterprises throughout the CDB territory of work.

(2) The process will involve well-known techniques for which engineering practices and available hardware limit adverse environmental effects from by-products, waste, etc. to acceptable tolerance levels.

(3) The project activities will be regularly monitored in terms of operating performance. The monitoring by the CDB is not limited to the narrow scope of financial performance, but under the Bank's responsibility for development includes observation of social, environmental and other impacts.

(4) If the need should arise the CDB has the capacity to revise a project to achieve desirable environmental and social performance.

Our review of the type of activities foreseen under this loan reveal no evidence that the environmental effects would:

(1) have a serious negative impact on the human environment;

(2) have impacts which are likely to be irrevocable or highly controversial;

(3) which might have a tendency for a cumulative ill-effect; or

(4) which might establish a precedent for adverse future action.

Consequently, a Negative Determination has been recommended in respect to further Environmental Assessment.

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ANNEX: II - 1

Page 1 of 3

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E.O. 11652: N/A

TAGS:

SUBJECT: DAEC REVIEW - CARIBBEAN REGIONAL - EMPLOYMENT INVESTMENT PROMOTION (INTERIM REPORT)

1. THE DAEC REVIEWED SUBJECT INTERIM REPORT AND APPROVED INTENSIVE REVIEW OF THE PROJECT. THE DAEC REQUESTED THAT THE FOLLOWING ISSUES BE ADDRESSED IN DEVELOPING THE PROJECT IN ADDITION TO THOSE RAISED IN THE IR:

-----A. PROBLEM STATEMENT - ECONOMIC ENVIRONMENT. THE INTERIM REPORT USES 1970 FIGURES TO DEFINE THE REGION'S UNEMPLOYMENT PROBLEM. THE DAEC REQUESTED THAT THE PP PROBLEM STATEMENT BE BASED ON MORE CURRENT DATA IF AVAILABLE. (G. WEIN WILL BE AVAILABLE TO ASSIST IN UPDATING EMPLOYMENT STATISTICS.) FURTHERMORE, THE DAEC REQUESTED THAT THE PP DEFINE THE NATURE AND EXTENT OF ECONOMIC POLICY OBSTACLES TO EXPANDING LABOR INTENSIVE INVESTMENTS. WHAT MINIMUM POLICY CHANGES ARE NECESSARY FOR PROJECT SUCCESS?

-----B. CDB CAPACITY. THE PROJECT'S SIX ACTIVITIES REQUIRE ADDITIONAL CDB STAFF AND MANAGEMENT RESPONSIBILITIES AND PLACE CONDITIONS ON USE OF THE NEW RESOURCES. GIVEN THE CDB'S PREFERENCE FOR SIMPLE REPLENISHMENT OF SPECIAL FUNDS RESOURCES, TOP-LEVEL CDB AGREEMENT SHOULD BE OBTAINED

DURING INTENSIVE REVIEW ON THE CONDITIONS TO BE PLACED ON PROJECT FUNDS AND ON THE NE:D FOR THESE TO ATTAIN PROJECT OBJECTIVES. CDB INVOLVEMENT AT THIS EARLY STAG" COULD ALSO INCLUDE ANTICIPATING AND ADDRESSING POTENTIAL CONDITIONS PRECEDENT.

-----C. GEOGRAPHICAL FOCUS. THE INTERIM REPORT FOCUSES ON BARBADOS AND THE LDCS, ALTHOUGH ALL NON-CONTR;BUTING CDB MEMBERS ARE ELIGIBLE UNDER THE PROJECT. THE DAEC SUGGESTED PROJECT LENDING CRITERIA BE DEVELOPED DURING INTENSIVE REVIEW BASED ON NATURAL SMALL INDUSTRY CREDIT DISTRIBUTION PATTERNS -- E.G., PAST AND PROJECTED CDB LENDING AND DEMAND FOR SMALL INDUSTRY CREDIT FOR ALL ELIGIBLE SPECIAL FUNDS BORROWERS (MDCS AND LDCS). FURTHERMORE, THE PP SHOULD INCLUDE A RATIONALE FOR INITIALLY LIMITING EX,ORT ACTIVITIES AND SMALL ENTERPRISE ASSISTANCE TO ONE MDC (BARBADOS) AND ONE LDC AND SHOULD DESCRIBE THE ,ROJECT'S SCHEME TO INCLUDE ADDITIONAL LDCS AND MDCS.

-----D. SMALL INDUSTRY ASSISTANCE.

THE PP SHOULD
DISCUSS WHETHER BIMAP 'S THE SOLE SOURCE OF EXPERTISE IN THE REGION FOR ASSISTING SMALL ENTERPRISES IN ACQUIRING AND APPLYING BUSINESS SKILLS AND JUSTIFYING THE SELECTION OF BIMAP OVER OTHER INSTITUTIONS, E.G., TRINIDAD, JAMAICA, THE CDB, OR THE DFCS. ARE THE PROPOSED INSTITUTION AND METHOD THE MOST COST-EFFECTIVE? WHAT IS THE LONG-TERM ROLE AND RELATIONSHIP OF BIMAP IN PROVIDI,G TA ON THE REGIO'? IN ADDITION, THE FINANCIAL FEASIBILITY OF PROVIDING SMALL BUSINESS TA AND TRAINING BY BIMAP SHOULD BE CAREFULLY REVIEWED IN THE PP. WHAT WILL HAPPEN WHEN AID GRANT FUNDS ARE NO LONGER AVAILABLE?

(2) STRENGTHENING THE DFCS. THE INTERIM REPORT PROPOSES A DOLS. 700,000 GRANT TO THE CDB FOR NO-INTEREST ON LENDING TO THE DFCS TO ASSIST IN THEIR CA,ITALIZATION. THE DAEC REQUESTED THAT THE CDB EXAMINE THE PROPER ROLE AND DISTRIBUTION OF THE DFCS IN TERMS OF INDIV,DUAL DFCS' FINANCIAL VIABILITY AND ABILITY TO DEVELOP PROJECTS AND MAKE LOANS. GIVEN THAT AID PROVIDES RESOURCES ONLY TO REASONABLY SELF-SUFFICIENT ENTITIES, HOW DOES THE CDB PROPOSE TO HANDLE ANY DFCS NOT VIABLE BY AID STANDARDS UNDER THIS PROJECT?THE PP SHOULD DEMONSTRATE HOW AND IN WHAT AREAS THE DFCS ARE IN A BETTER POSITION THAN THE CDB AND ARE THEREFORE NECESSARY TO PROVIDE SMALL INDUSTRY CREDIT. WHAT ALTERNATIVE AID MECHANISMS COULD BE USED TO CAPITALIZE THE DFCS?

(3) CREDIT DEMAND. IN PROVIDING JUSTIFICATION FOR THE LEVEL OF DEMAND UNDER THE SMALL ENTER,RISE COMPONENT, THE PP SHOULD SHOW THE INCREMENTAL DEMA;D OVER AND ABOVE THE SMALL INDUSTRY DIVISION'S REGULAR PROJECTIONS. INTENSIVE REVIEW SHOULD ADDRESS POTENTIAL SIMILARITY BETWEEN SOME OF THIS PROJECT'S SMALL ENTERPRISE ACTIVITIES AND THE SMALL INDUSTRIES ELEIGIBLE UNDER THE AGRIBUSINESS LOAN NO. 538-T-007.

-----E. EXPORT INVESTMENT PROMOTION.

(1) PRODUCT IDENTIFICATION. THE DAEC RECOMMENDED THAT THE PP DISCUSS THIS PROJECT ACTIVITY'S ADVANTAGES IN TERMS OF EXPANDING EMPLOYMENT OPPORTUNITIES IN THE REGION (E.G., COUNTERACTING EMIGRATION FROM THE REGION). THE DAEC ALSO RECOMMENDED THAT THE EXPORT PROMOTION UNIT BE LOCATED IN THE REGION WITH BUSINESS REPRESENTATIVES FOR THE U.S., VENEZUELA AND OTHER MARKETS, E.G., THE EEC.

(2) EXPORT PRODUCTION RESPONSE. THE INTERIM REPORT PROPOSES THIS ACTIVITY INITIALLY ONLY IN BARBADOS AND AN LDC. THE DAEC REQUESTED THAT INTENSIVE REVIEW INCLUDE AN INVESTIGATION OF HOW THIS ACTIVITY COULD BE MADE REGIONAL:
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COULD A MECHANISM SIMILAR TO THE BIDC AND ST. LUCIA INDUSTRIAL DEVELOPMENT UNIT BE CREATED IN OTHER ISLANDS DURING THE LIFE OF THE PROJECT?

(3) CREDIT DEMAND. THE DAEC REQUESTED THAT INTENSIVE REVIEW INCLUDE AN ANALYSIS OF LOCAL LABOR COSTS AND OTHER FACTORS AFFECTING EXPORT INDUSTRY COMPETITIVENESS TO ENSURE THE FEASIBILITY OF THE LABOR INTENSIVE EXPORT ACTIVITY.

-----F. CREDIT FUND ELIGIBILITY CRITERIA. THE DAEC REQUESTED THAT THE LIMIT ON CAPITAL OUTLAY PER JOB BE KEPT AS LOW AS POSSIBLE FOR AID FINANCING. S,ECIFICALLY, THE DAEC EXPRESSED STRONG RESERVATIONS CONCERNING THE DOLS. 15,000 UPPER LIMIT. THIS LIMIT SHOULD PROBABLY NOT EXCEED DOLS. 10,000 WITH THE BULK OF THE PROGRAM'S FINANCING AIMED AT AROUND THE DOLS. 4-5,000 PER JOB RANGE. IT IS EXPECTED, HOWEVER, THAT THE FINAL CAPITAL/LABOR RATIO USED FOR THE CREDIT FUND WILL BE FULLY JUSTIFIED IN THE PP, INCLUDING AN HISTORICAL REVIEW OF CDB SMALL INDUSTRY LENDING, EXPERIENCE IN OTHER COUNTRIES OUTSIDE THE REGION, AND THE NEED TO MAXIMIZE THE EMPLOYMENT EFFECT. (DAEC RECOMMENDED THAT AN ECONOMIST ASSIST IN DETERMINING THESE FIGURES). THE PP SHOULD ESTABLISH THAT PROJECTS EXCEEDING THE UPPER LIMIT WOULD BE ELIGIBLE ONLY IF IT CAN BE DEMONSTRATED THAT THE PROJECT WILL GENERATE DOWN-STREAM EMPLOYMENT WITH A CAPITAL LABOR RATIO CONSISTENT WITH THE REGULAR PROJECT LIMIT. THE DAEC ALSO REQUESTED THAT THE PP ADDRESS THE ISSUE OF ELIGIBILITY OF VARIOUS INDUSTRY CATEGORIES AND OF A LIMITATION ON GOVERNMENT-OWNED ENTERPRISES.

-----G. TECHNICAL INFORMATION UNIT (TIU). INTENSIVE REVIEW SHOULD INCLUDE AN ANALYSIS OF THE DEMAND FOR THE T,U AND TIU OUTPUT. DETERMINATION OF THE FUNDING LEVEL FOR THIS COMPONENT SHOULD REFLECT THE APPROPRIATE TECHNOLOGY FUND TO BE ESTABLISHED UNDER THE AGRIBUSINESS LOAN 538-T-007. THE DAEC FURTHERMORE SUGGESTED THAT A MORE PRECISE DEFINITION OF "AP,ROPRIATE TECHNOLOGY" IS NEEDED, IN PARTICULAR, WHETHER IT IS LABOR-INTENSIVE OR LIGHT CAPITAL. IN ADDITION, THE FINANCIAL VIABILITY OF THE TIU SHOULD BE CLOSELY REVIEWED IN THE PP.

-----H. OTHER DONORS. THE PP SHOULD DESCRIBE WHAT OTHER DONORS PLAN TO DO FOR SMALL INDUSTRY DEVELO,MENT AND TO ASSIST BIMAP AND THE DFCS - WITH SPECIFIC REFERENCE TO CIDA AND TO THE PROPOSED IDB PROJECT. CHRISTOPHER
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I. AID EXPERIENCE IN THE CARIBBEAN INDUSTRIAL SECTOR

AID's direct support to the region began with a $10,000 loan to CDB in FY 1971. The loan had as its principal purpose the acceleration of economic growth and development of its regional member countries and the promotion of economic cooperation and integration among them, with special regard to the needs of the less developed members of the region. The loan, Special Development Fund-1 (SDF-I), was used by the CDB to extend medium and long term sub-loans for a broad range of development activities in agriculture, manufacturing and tourism.

Due to organizational and implementation problems this loan was not fully disbursed until 1977. However, the results in terms of filling the gap for developmental lending programs have been successful. Two major sub-programs asociated with this loan were the Small Industrial Credit Scheme (SIC) and Industrial Estates Expansion Program. Both of these sub-programs have contributed to employment and industrial expansion of the participating islands. Although all phases of the program have not been successful (specially, the management and financial problems, see the Institutional Analysis Section and Annex VI-7.), the loan demonstrates that loan funded programs of this type generate employment. A total of some 25000 direct jobs have been created by these two programs at a cost of $8 million.

In mid FY 1973 a "Second Round", the SDF II was agreed to between the CDB and AID. This loan was for $12 million with the same purpose and objectives of SDF I. The most significant change was the addition of Barbados to the "regular" less developed members as being eligible for loan funds. This was specifically done in consideration of regional trading preferences and export opportunities. The implementation of this loan has been hampered by the serious economic conditions in the Caribbean of the mid 70's. To date all funds have been committed with some 29 sub-loans assigned to the industrial estate and SIC programs for $5.5 million.

During implementation of these loans it became apparent that most Government ministries and local finance institutions lacked the technical and institutional capacity to identify, plan, finance, implement and manage the types of programs which could establish significant industrial development. This void of technical expertise is carried over in the private sector where there is a similar need to strengthen the enterpreneurs in a broad range of management skills required for successful business operations. There is, in addition, a serious lack of organized and readily available information on which to base investment, marketing and technological decisions.

AID's current program in the area of employment generation has been designed to effectively address this set of conditions. The on-going (FY 1978) project with the Caribbean Development Bank (CDB) makes the CDB a principal regional source of assistance and information in such areas as innovative applications of indigenous raw materials, process and product development and the application of appropriate technologies to labor intensive yet profitable enterprises. The Bank's Technology Information Unit (TIU) is creating and maintaining a data base on regional manufacturing processing techniques and equipment for all scales of operation, agricultural and agro-industrial techniques, aquaculture, construction materials and processes, energy and supporting material resource data. The project is also financing pilot research and demonstration sub-projects for adapting appropriate technologies and technical assistance for lending institution improvements, export industry promotion and small business management practices.

The TIU in its project review and analysis function serves as the programmatic foundation for improving the mechanisms of employment generation in the region. The proposed loan/grant is a parallel function to this effort by providing credits and specific technical assistance to support a developing industrial sector. This FY 78 project was not signed until the end of September 1978 and became operational with all CPs met in November. The new CDB reorganization in January, 1979 made special allocation of staffing for implementation of this Grant. The following are some of the activities presently being developed by CDB for review by RDO/C:

Investment Promotion 1/

- Provision of Technical Assistance to the LDC's developing their competence in identifying possible investors and in establishing programs for their investments to materialize.
  Estimated cost $120,000.

- Training programs for investment promotion in the LDC's involving the training of LDC participants in-country; thereby, reducing the resource drain on these small countries.
  Estimated cost $225,000.

- For payment and training of 7-8 industrial promotion officers/counsellors (locals returned to West Indies).
  Estimated cost $250,000.

Small Businesses

This program would supplement the limited technical assistance services now offered by CDB and the DFC's. CDB in providing the needed technical assistance would strengthen small enterprise management in the LDC's thereby enhancing the prospects for profitable employment generating operations within the small business sector.

The specific objectives of the program would be:

-- to facilitate the technical training of 40 small business entrepreneurs/selected staff members and associated CDB/DFC Project Officers.

-- to instruct and motivate small business entrepreneurs and their staff in the efficient conduct of their business operations.
   See Annex II - 6 for additional information.

DFC's

The implementation of this program envisages that CDB will work jointly with the DFC's to carry out feasibility studies for restructuring and modifying on-lending and investment activities.

They include:

- Survey of small industry market
- Evaluation of existing markets for other forms of lending
- Establishment of procedures
- Development of viability criteria under different assumptions
- Determination of personnel and training requirements
- Evaluation of different organization options. See annex II-7.

1/ Due to budgetary restrictions of Grant funds, the CDB is evaluating various programs to determine the greatest immediate impact of resources.

One objective of this investment promotion project is that the DFC's should emergy as better mechanisms for promotion and financing of small industries.

Apart from re-organizing the DFC's, the program will involve improving the capability of DFC's for industrial promotion. The CDB strategy calls for recruitment of seven experienced Small Industry Loan Officers (SILO's), one to be posted at each DFC for a two-year period. To make this program an on-going exercise, another seven counterparts are required so that one could be attached with each DFC on a permanent basis. But the budget under the FY 1978 project will not permit the implementation of such a program in all the DFC's at the same time. Hence, enter the 1979 Grant which provides the funds to complete this activity in a timely manner.

Another major thrust of the/1979 project is to experiment with a CDB/Government commercial bank lending mechnism. Although the final details of this organization have not been worked out, a positive response has been received from the CDB, the Central Bank of Guyana and Commercial Banks located in Guyana. Experience with a similar type of organization was established in 1965 in Guyana under the AID project entitled Private Investment Fund. As with the 1979 project, the 1965 program was designed to finance the acquisition of capital goods and services on terms of 3 to 10 years to private industrial borrowers initially in U.S. dolalrs. The Guyana Government assumed the exchange risk. The credits were made available to borrowers through the commercial banks, who assumed the credit risk. The initial funds and roll-overs were held in Trust by the Central Bank of Guyana.

Although the project was not totally successful due to the lack of continued usage of the roll-over funds, the project achieved an opening of commercial bank credit channels and increased industrial production. The past weakness in the commercial banking system has been taken into consideration in the 1979 project by limiting the length of time unused roll-overs can be held in the Central Bank.

II. OTHER AID ACTIVITIES

Institutional Development Grant, FY 1978, 538-0016

This $1,840,000 grant was signed August 31, 1978, and became operational in December. The purpose of the Project is to institutionalize the capability of the Caribbean Development Bank (CDB) to provide technical assistance to the English-speaking Caribbean countries and the regional institutions serving them.

Since its establishment in 1970, CDB has been providing some technical assistance to its borrowing member states, and as the flow of development assistance to the states increases in volume, CDB's involvement in technical assistance has widened. This occurred because it is recognized that a major constraint to the timely and effective use of this increased flow of resources is the shortage of middle and high level management, administrative and technical personnel which imposes a severe limitation on the capacity of the borrowing member states, particularly the LDCs. At least 30% of CDB staff time is spent on project preparation, but while the demand for funds for project preparation continues to increase,there is an increasingly significant demand for technical assistance funds for non-project related purposes.

The Bank has established a Technical Assistance Fund to finance advisory services, training and studies in the CDB's borrowing member states and the institutions serving them, giving priority to the needs of the Less Developed Countries. At least 70% of the Fund's resources finances technical assistance directed at the LDCs and the remainder allocated to the MDCs and regional institutions.

CDB's technical assistance program will complement its sub-lending activities and thus permit a coordinated technical and capital assistance approach to the development problems of its Borrowing Member States.

The Fund's resources are allocated to four (4) areas of technical assistance. These are:-

(1) General Development
(2) Pre-investment and Project Preparation
(3) Project Implementation
(4) Bank Development

Where the technical assistance fund provides services to the member states, the TA provided under the Employment/Investment promotion loan/grant is on site directed at the small and medium businessman through the participating financial institution in each country.

III. OTHER DONOR ACTIVITIES

A. Caribbean Group for Cooperation in Economic Development (CGCED)

The CG continues to be most influencial in establishing priorities and modifying policies of the Caribbean countries. The new initiatives and directed emphasis suggested in industry and institutions by the IBRD in the paper Caribbean Group: Initial Results and Prospects, April 1979 are complimentary to the goals and purpose of this project.

In summary of the Report:

"On the whole, the economic situation of the Caribbean countries has improved since mid-1978. But the progress achieved has, in several cases, fallen short of what was expected at the time of the first CG meeting. The degree of progress varies substantially from country to country. Barbados and St.Lucia have advanced faster than expected last year in the process of adjusting their economies to the changing international economic situation. Jamaica and Guyana, while also achieving substantial progress in the adjustment process, failed to increase investment, production and employment as had been planned. In Dominican Republic, a large balance-of-payments deficit has emerged as the most pressing economic problem, at a time in which the Government is still trying to formulate its long-term development policies and programs. In Haiti, the poorest country in the hemisphere, uncovered balance of payments deficits are projected for 1979 and 1980. The progress achieved since June 1978 by the other countries of the region has been, for the most part, close to what was anticipated. In view of the economic difficulties found by most Caribbean countries, and of the likelihood of further problems owing to the current acceleration of international inflation, the need for broader and more effective economic cooperation among the Caribbean countries has become more obvious, and the finding of ways to satisfy such need more urgent. The English-speaking countries of the region - which have made substantial progress since the early 1960s in furthering economic cooperation among themselves by, inter alia, establishing the Caribbean Community and Common Market, and the Caribbean Development Bank - face the need to strengthen further their own regional schemes - a task which deserves the strongest support of these countries and of the external community. And it is also necessary to find ways to develop a more effective collaboration in economic matters between CARICOM and other Caribbean countries."

The IBRD report suggests and the RDO/C project responds in the supporting with financial backing the urgent need to increase public and private investment in the Caribbean countries. Although the project does not exclusively support sub-projects with an export bias, the project supports the complimentary programs for changing the Caribbean fiscal incentations to industrial expansion such as the following special programs recommended IBRD to:

i) finance investments for the reconversion and/or expansion of existing industries, to enable them to start, or increase, their export activities;

ii) finance investments in new export-oriented industries;

iii) finance investments in industrial estates and other associated infrastructure; and

iv) ensure timely availability of foreign exchange to cover the imports of raw materials, intermediate goods and spare parts required by export industries.

Coordinating this RDO/C financial/TA program with the planned and proposed technical assistance offered by other international donors and the UNDP the Caribbean countries through the CG will be in a better position to offer the industrial sector the technical assistance required for industrial expansion.

B. Country Contributions to the Development Activities of the CDB

Canada, Germany, United Kingdom, Venezuela, continue to be major contributors to the Banks "Special Development Fund". These soft funds are used by the the CDB in a similar manner to AID's previous two loans in general development efforts. These pledged funds could be used for industrial development but in most cases, are not due to the restricted specific sectoral attachment of AID funds. For the next three years the SDF pledges are:

	US$ Million
Canada	8.8
Germany	7.2
United Kingdom	10.0
Venezuela	7.65
TOTAL	33.65

According to CDB's estimates this is $16.35 million short of the resources required for the three year period July 1979 to June 1982.

C. Direct Country Assistance

Although not finalized CIDA is undertaking a combined program with the Barbados Institute of Management and Productivity (BIMAP) to experiment with business skill growth seminars. The program has begun at an estimated cost of $300,000 and includes test training seminars of businessmen and entrepreneurs in the selected LDC's. Upon completion of the group seminars BIMAP personnel will re-interview the participants to evaluate the effectiveness of group training as opposed to their present direct one on one training of small entrepreneurs.

The results of this program will be very important to all ongoing business training programs in the Caribbean. The program results could provide needed information and suggest required modification group training methods and seminars planned for the Employment/Investment Promotion Loan/Grant.

D. Inter-American Development Bank (IDB)

In late 1978, the IDB signed $12 million loan agreement permitting the CDB to use its established channels for on-lending in the areas of Agriculture, Industry, Tourism, Infrastructure, and selected Regional projects.

Agriculture: The agricultural sector projects to be financed include agricultural credit loans channeled through the local development finance corporations (DFCs) in the LDCs to assitst small and medium sized farmers; loans for the rehabilitation and improvement of agricultural estates designed to restore production, increase productivity and achieve more equitable land tenure arrangements; loans for marketing and storage facilities; and loans for diary and livestock production.

Industry and Tourism: The proposed program incorporates a continuation of the CDB small industry credit program, channeled through DFCs in the LDCs, and the prudent expansion of industrial estates facilities in its members to provide manufacturing facilities for small and medium sized industry. Lending activity in the tourism sector, which will be on a more limited scale, is focussed on the smaller locally-owned tourist facilities(hotels and guest houses) and on public tourism infrasturcture (wharfs, beach improvements, etc) that are economically justified.

Infrastructure: The infrasturcture component of the program includes the financing of feeder road programs generally designed to serve the smaller farms (below 25 acres) as an integral part of agricultural development programs; and the expansion of electricity services and potable water facilities designed to provide these services to the lower income consumers in rural areas or on the perhiphery of urban areas presently provided with these services.

Regional Integration Projects: These regional projects will relate primarily to schemes for a more rational production of those agricultural products in which the region is in deficit, and for the provision of essential inputs (seed, fertilizers, planting materials, hatching eggs etc).

During the project team interview with the IDB representative indications were given that the majority of these loan funds would be committed this year. The project team does not consider the AID project activities a duplication of the IDB loan but rather a more concentrated effort on the small and medium industrial sector. The IDB was most supportive of the AID project and provided guidance in defination of small firms and calculations for small business financial viability. This project's coordination and complementary with the IDB loan will provide greater resources to the Caribbean.

E. World Bank (IBRD)

The IBRD in 1978 signed a $6 million loan with the Government of Jamaica. This loan is designed to assist in reducing the high rate of urban unemployment. This project represents the banks first integrated small-scale enterprise project in the Caribbean Region.

It is aimed at:

i) financing of modern small-scale enterprises through the commercial banking system. Bank of Jamaica (BOJ) the central bank, will be the apex institution under this component;

ii) financing of very small-scale enterprises through the Small Enterprise Development Corporation (SEDCO), a new specialized small industry bank which would be built up under the proposed project; and

iii) providing technical assistance to SSEs to supplement both financing programs.

Although the loan is not fully operational it was developed recognizing similar constrians and objectives as the Employment Investment Promotion Project. Considering this large fund and the Manpower, Training and Employment Grant Project (532-0047) of US AID/Jamaica are available, additional study is required prior to qualification of Jamaican sub-projects under the new AID loan. The project team recommends that Jamaica be included as a participant but prior to the approval of sub-loan a determination be made by the CDB as to the availability of IBRD funds.

INDUSTRIAL ESTATES

LOAN 538-L-001

COUNTRY	LOAN NO.	DATE LOAN SIGNED	LOAN VALUE (US$000)	SUB-TOTAL
DOMINICA	2/SFR-D	10/4/72	$ 79	
MONTSERRAT	5/SFR-M	7/23/75	$131	
ST. KITTS	3/SFR-ST.K	6/15/72	$ 2	
	7/SFR-ST.K	2/18/74	$104	
	7/SFR-ST.K	6/30/78	$ 5	$111
ST. LUCIA	3/SFR-ST.L	2/06/73	$ 90	
	4/SFR-ST.L	4/30/73	$225	
	8/SFR-ST.L	5/31/74	$255	$570
ST. VINCENT	3/SFR-ST.V	5/22/75	$ 82	
	7/SFR-ST.V	11/8/73	$175	$257
			$1,148	

LOAN 538-L-003

COUNTRY	LOAN NO.	DATE LOAN SIGNED	LOAN VALUE (US$000)	SUB-TOTAL
BARBADOS	1/SFR-OR-BS		$616	
BELIZE	13/SFR-BZ	3/05/75	$483	
DOMINICA	2/SFR-D	10/4/72	$ 24	
	3/SFR-D	12/13/74	$ 24	
	8/SFR-D	10/10/74	$116	$164
MONTSERRAT	5/SFR-M	7/31/75	$ 95	
	5/SFR-M	7/01/75	$ 17	$112
ST. KITTS	3/SFR-ST.K	8/02/72	$ 80	
	3/SFR-ST.K	11/4/75	$ 41	
	7/SFR-ST.K	2/15/77	$148	$269
ST. LUCIA	4/SFR-ST.L	4/30/73	$ 10	
	8/SFR-ST.L	5/31/74	$168	
	19/SFR-ST.L	3/20/78	$667	$845
ST. VINCENT	7/SFR-ST.V	9/01/75	$ 16	
	16/SFR-ST.V	12/14/76	$611	$627
			$3,116	

LOANS 001 AND 003 TOTAL
1972 THROUGH 1978 — $4,264

INDUSTRIAL ESTATES SUB-LOANS

SUB LOANS BY YEAR SIGNED

1972	1973	1974	1975	1976	1977	1978
79	90	255	131	611	616	667
2	225	104	82		148	5
24	175	24	483			
80	10	116	95			
		168	17			
			41			
			16			
185	500	667	865	611	76[illegible]	672

TOTAL 4,264

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CARIBBEAN DEVELOPMENT BANK

SUMMARY PROGRESS REPORT OF SMALL INDUSTRY CREDIT

FOR QUARTER ENDED ...DECEMBER 31, 19..78.

Project STATE Components	ST.KITTS/NEVIS/ ANGUILLA EC$	ST.LUCIA EC$	TURKS & CAICOS IS. US$	ST. VINCENT EC$
Institution	Development & Finance Corporation (DFC)	National Development Corporation	DEVELOPMENT BOARD	Development Corporation
Sub-loans Approved	5 Sub-loans CDB 94,800 DFC 13,[illegible] 107,800 Jobs 11	12 Sub-loans CDB: 343,500 NDC: 59,500 403,000 Jobs 52	8 Sub-loans CDB: 2[illegible]9,700 Jobs: 34	32 Sub-loans CDB: 985,900 DC: 264,100 1,250,000 Jobs: 134
Projects in Pipeline	None	Six(6) Projects EC$104,000	Six (6) projects $360,000	Two (2) projects $50,000
Disbursements		$47,[illegible]	$81,000	$36,255
Status of Projects in Pipeline	-	2 Awaiting information from applicants 4 Security problems	Research & Consultation	1 - Awaiting Board of Directors Approval. 1- Awaiting information by applicant.
Problems Affecting the Scheme	The DFMC is in a prolonged state of [illegible] pending re-organisation. Only collections of outstanding sub-loans are being effected.	Non-functioning of institution	Paucity of viable projects identified	Paucity of good projects.
[illegible]'s Last Visit Next Visit	July 1978 March 1979	Dec. 1978 Jan. 1979	September 1978 On request	December 1978 January 1979

CARIBBEAN DEVELOPMENT BANK

SUMMARY PROGRESS REPORT OF SMALL INDUSTRY CREDIT

FOR QUARTER ENDED ..DECEMBER 31, 19 78.

Project / STATE Components	ANTIGUA EC$	BELIZE US $	BRITISH VIRGIN ISLANDS US$	CAYMAN ISLANDS US$
Institution	ANTIGUA & BARBUDA DEVELOPMENT BANK (ABDB)	DEVELOPMENT FINANCE CORPORATION	DEVELOPMENT BANK OF THE VIRGIN ISLANDS	DEVELOPMENT BOARD
Sub-loans Approved	7 Sub-Loans CDB 214,765 ABDB 34,439 249,204 Jobs 20	78 Sub loans CDB 851,000 DFC 192,000 1,043,000 Jobs 139	0	0
Projects in Pipeline	-	Four (4) projects $80,000	NA	NA
Disbursements	-	707,000	0	0
Status of Projects in Pipeline	-	Research & Consultations	NA	NA
Problems Affecting the Scheme	Management Assistance is needed for existing & prospective borrowers.	Slow-down in small-scale industrial activity.	Tardiness by DBVI in signing the Loan Agreement	Tardiness by Cayman Islands Government in signing Loan Agreement
ILO's Last Visit	November 1978	November 1978	August 1978	July 1977
Next Visit	February 1979	On request	On request	On request

CARIBBEAN DEVELOPMENT BANK

SUMMARY PROGRESS REPORT OF SMALL INDUSTRY CREDIT

FOR QUARTER ENDED DECEMBER 31, 19 78.

LOAN/STATE	DOMINICA EC$	GRENADA EC$	MONTSERRAT EC$
CFI [illegible]	National Commercial & Development Bank of Dominica (AID Bank subsidiary)	Grenada Agricultural & Industrial Development Corporation	Development Finance & Marketing Corporation (DFMC)
Sub-loans Approved	11 SUB-LOANS CDB 282,500 AID Bank 8,000 290,500 Jobs: 43	NONE	10 Sub-Loans CDB 267,300 DFMC 12,000 279,300 Jobs 15
Projects in Pipeline	-	None	One (1) Project $24,000
Disbursements	-	Nil	
Status of Projects in Pipeline	-	N.A.	Being appraised
Problems Affecting the Scheme	The AID Bank needs an Industrial Officer to assist with promotion and management assistance.	Only new conditions precedent have been complied with	DFMC has lost the services of its Industrial Officer. There is need for promotional activity & management assistance back-up.
IDO's Last Visit	October 1978	February 1978	November 1978
Next Visit	March 1979	January 1979	March 1979.

Revised 1.3.79.

EMPLOYMENT/INVESTMENT PROMOTION PROJECT

Proposals for Small Enterprise Technical Assistance Component

Small Enterprise Technical Assistance Survey:

One of the purposes to be accomplished under Grant Agreement No.538-0013 between CDB and USAID is described in Annex I to that Agreement as follows:

" (e) To design a programme of technical assistance services for the small business of the Region that is effective and to the extent feasible, able to recover its costs."

An elaboration of this goal in the same Annex proposes that:

" This sub-activity will determine if there is a viable base for small business technical assistance" and states, further that:

" A survey of the less developed CDB Member Countries will be made to determine the magnitude of technical assistance required by the sector. Studies will be made in sufficient detail to establish not only small industry technical assistance requirements, but also to establish credit market data, skill availability, and the degree of readiness of existing small enterprises to participate (in) employment investment promotion".

US$174,000 is budgeted to finance this survey the manpower requirements of which is estimated at 12 persons months.

Given the known inadequacies of the data base and institutional pre-requisites for a meaningful survey of the kind described the implementation of the above proposal is unlikely to "produce" anything but an expensive report which will "reveal" much of what is already known, including the fact that the data base is weak.

Whether such a survey is necessary is also questionable: CDB's Project Officers working with the DFC's, regional Management Institutions, Industrial Development Corporations, the University of the West Indies and CADEC have already identified a number of small business technical assistance needs which are detailed at Appendix I and which could form the basis for developing an action-oriented programme.

As a matter of fact the Barbados Institute of Management and Productivity (BIMAP) is currently gearing for the implementation of a pilot project for Small Business Management Assistance in each of the Eastern Caribbean LDCs over the next three years; this project is scheduled to start in Montserrat around September 1979, and is likely to be financed by CIDA.

The BIMAP pilot project will offer limited management counselling and incorporate a response evaluation exercise after three months. It is hoped that, resulting from the outcome of this pilot scheme, grant funds, possibly through the CDB, will be identified for financing the establishment of full-fledged small business T.A. units in each territory.

The DFCs in the Eastern Caribbean LDCs could and should be involved in the BIMAP project in order to provide useful on-the-job training and experience for their Industrial Officers for whom additional guidance and training are also being proposed in the DFC Restructuring Component of the Investment/ Employment Project.

The BIMAP exercise is not however designed to meet the training needs (through factory attachments and specially designed Seminars) of the small business sector at this stage.

As to whether a Small Enterprise T.A. programme is likely to be self-financing, there are compelling a priori grounds on which a negative answer could be predicted: Self-financing technical assistance programmes for small business are unheard of even in the highly industrialised and commercially-oriented USA and would be an unlikely development in the embryonic circumstances of the CARICOM LDC's.

In the light of the foregoing it is therefore recommended that CDB negotiate with USAID a change in the proposed sub-activity for Small Industries Assistance to allow the use of the budgeted funds for financing technical training attachments and the organisation, preparation and delivery of specially designed seminars for small businessmen, selected members of their staffs and CDB/DFC project officers working in the LDCs.

Details of the proposed training programme are described at Appendix II. Programme implementation could be achieved within the existing framework of CDB/DFC working relationships and could commence as soon as the funds are available.

Appendix i

Identified Small Business Technical Assistance Needs in the Eastern Caribbean LDCs:

1. Management Counselling - on technical, marketing, accounting, financial and personnel aspects.

2. Training - through attachments to counterpart organisations in more developed countries and specially designed Seminars and Courses.

3. Assistance with Project-Formulation, Preparation and Appraisal; also with application for loans factory space and fiscal concessions.

4. Pilot Plants - for testing new project ideas in order to demonstrate viability or otherwise of commercial operation and therefore promote/avoid beneficial/unrewarding investment.

5. Technology Selection/Adaptation. -

6. It is also considered that the provision of a Loan Guarantee Fund would be an important adjunct to any technical assistance programme designed for the LDCs in the light of the high incidence of independent collateral deficiency in small business loan proposals.

Small Industry Training Programme

1. Introduction:

This programme would supplement the limited technical assistance services now offered by CDB and the DFCs and would lead to a strengthening small enterprise management in the LDCs thereby enhancing the prospects for profitable, employment generating operation within the small business sector.

The proposed inclusion of CDB/DFC Project Officers on the technical training attachments would also enhance the effectiveness of these officers in their technical assistance role whilst the seminar activities will be designed to provide a learning experience for all concerned.

The budgeted sum of US$174,000 will be sufficient to finance a total of 38 attachments (2 persons per attachment) and the conduct of 50 seminars (involving 1,200 - 1,500 people) in the 8 LDCs over a 2-year period commencing say June 1979.

2. Programme Objectives

The specific objectives of the programme would be:

(i) to facilitate the technical training of 40 small business entrepreneurs/selected staff members and associated CDB/DFC Project Officers.

(ii) to instruct and motivate small business entrepreneurs and their staff in the efficient conduct of their business operations.

3. Programme Outputs

(i) Strengthening of the technical aspects of small enterprise operations.

(ii) Improved business education, rapport and communication within the small business sectors of the LDCs; possible formation of Small Business Associations.

4. Programme Description

Existing CDB Project Officers assigned to the Windwards, Leewards and Belize will work in close collaboration with the DFCs to design, organise and deliver seminars on business topics of interest to existing and would-be small businessmen. CDB Project Officers will also assist the DFCs in identifying small business technical training needs and arranging suitable attachments for small businessmen and/or selected members of their staff. CDB/DFC Project Officers may also, depending on the particular circumstances of each case, be included for the entire duration or for a shorter period on such attachments (expected to average 10 days).

5. Draft Budget (US$)

	Yr. 1	Yr.2*
Training Attachments for Small Businessmen/Staff/Project Officers		
- Belize: 5 attach. x 2 men x $1500 person	15,000	15,500
- East Caribbean: 2 attach. x 2 x 7 LDCs x 1500	42,000	46,200
Small Business Seminars		
- Belize - 4 per annum @ 1000 per seminar	4,000	4,400
- East Caribbean - 3 x 7 p.a. @ 1000 per seminar	21,000	23,100
	82,000	89,200
Total Budget 171,200		

*An inflation rate of 10% over year 1 is assumed.

The above programme is accepted subject to the availability of staff support.

USAID Project Agreement No. 538-0013
Dated September 28, 1978 -
Employment/Investment Promotion

I. One of the three areas for Technical Assistance under this project is the Lending Institution Improvement. The implementation of this programme envisages that CDB will work jointly with the DFCs to carry out feasibility studies for restructuring and modifying on lending and investment activities. They include:

(i) Survey of small industry market

(ii) Evaluation of existing markets for other forms of lending

(iii) Establishment of procedures

(iv) Development of viability criteria under different assumptions

(v) Determination of personnel and training requirements

(vi) Evaluation of different organisation options.

II. Steps to be taken to implement the programme

Phase I

	Time Frame	Budget	Amount
1. CDB to secure the commitments of Governments of LDCs to a programme for restructuring the DFCs	April/May 1979	NIL	-
2. CDB to decide order of priority among LDCs to implement this programme.	-	-	-
3. CDB to take steps to appoint a study team comprising one representative each from Goverment/DFC and CDB - The study should focus on six aspects of the problem enumerated in the project description so as to result in a realistic restructuring plan for DFCs - (Prepare questionnaire, clientele to be interviewed and decide on strategy of study)	June to October/79 *(7 countries)	5 PM for one expert @ $2,500 per month	$12,500

*Antigua, Dominica, Grenada, Montserrat, St. Kitts, St. Vincent, St. Lucia

		Time Frame	Budget	Amount
				B/F $12,500
4.	CDB to negotiate the restructuring plan with Governments of LDCs for their acceptance and fix time schedule for implementation.	November/79 to January/80	3 PM - $2,500 per month	$ 7,500
5.	Implementation of the restructuring plans in seven LDCs - continuous supervision and monitoring problems arising from this exercise.	January through December/80	12 PM - $2,500 per month	$30,000
6.	Identify sources for securing assistance to provision of seed capital to DFCs.	-	-	-
7.	(i) Securing the service of one SILO to be attached to one DFC (say Dominica) for two years. Though he will be attached to one DFC (Dominica) his area of work will cover two islands - say, Antigua in addition to Dominica. Over and above training his counterparts in the two DFCs, he will assist in the Technical Assistance programme to sub-borrowers in both the countries.		24 MM - $2,000 per month	$48,000
	(ii) Securing the services of two local counterparts (SILOs) one to be attached with each DFC, (say, Antigua and Dominica) for a period of two years to work along with the SILO. The project will bear the salaries of the two counterparts for two years after which DFCs will bear their salaries.		48 MM - $750 per month	$36,000
				$134,000

The projected expenses for Phase I of the project exceed the budget allocation of $122,000 by $12,000.

Phase II

	Time Frame	Budget	Amount
7. Conduct two training courses at CDB for DFC personnel:			
(a) Course for appraisal of S.S.E. projects (focus on lending procedures - appraisals - supervision - rescheduling-technical assistance, etc.)	May 1980	2 PM	$ 5,000
(b) Course for middle level managerial personnel of DFCs including Accountants and Accounting Assistants - (Focus on accounting procedures, compilation of management information of loan supervision systems, etc.)	July 1980	2 PM	$ 5,000
Hotel, per diem and travel for 15 trainees on each course.	-	-	$50,000
			$60,000

(No funds are presently available for Phase II of the project.)

III. Strategy for implementation

(i) Though the project description (Annex I to the Agreement) envisages the use of outside financial and management experts for making evaluations and implementation plans for the programme, it would be economical and perhaps more effective if a full-time Banking Adviser could be recruited by the Bank on contract for two years. This would result in continued attention of the expert to this DFC rationalisation programme as an on-going exercise.

(ii) The whole objective of this investment promotion project is that the DFCs should emerge as better mechanisms for promotion and financing of Small Industries.

Apart from re-organising the DFCs, the programme should involve improving the capability of DFCs for industrial promotions. This strategy calls for recruitment of seven experienced SILOs, one to be posted at each DFC for a two-year period. To make this programme an on-going exercise, another seven counterparts are required so that one could be attached with each DFC on a permanent basis. But the budget under the project will not permit the implementation of such a programme in all the DFCs at the same time. Hence, the best course under the circumstances will be to implement the programme through stages in an effective way. One or two DFCs may be chosen in the first instance where this exercise is most likely to succeed and later enlarged to the other islands depending on the needs of the situation when more funds become available.

Item 7 of the programme, therefore, envisages recruitment of only one experienced SILO to be positioned either at Dominica or Antigua DFC, but his area of operation will cover both the islands. There will be a counterpart SILO for him both at Antigua and Dominica DFCs so that the SILO will have full work load.

After the initial two year period, the salary of the counterpart SILOs will be absorbed by the DFCs.

The two training courses contemplated under Phase II of the project ought to be an integral part of the promotional programme of DFCs; they have, however, been considered for implementation for subsequent stage only because of lack of funds and not because of their relative low importance.

R.P. Iyer
March 13, 1979

AID Efforts to Expand Output and Employment

In the Manufacturing, Tourism and Services

A. CONSTRAINTS TO EXPANSION

Six principal constraints to the expanded investment, employment and output have been identified.

1. The Limited Number of Financially Viable Projects.

The small size of Caribbean markets makes many types of industrial development financially unfeasible, unless geared toward extra-regional export markets. Additional import substitution possibilities will develop over time but are fairly limited for the present. Emphasis must thus be placed on developing production for extra-regional export markets, and few firms presently have the necessary knowledge and skills necessary to penetrate those markets.

In some cases, however, profitable investment opportunities do exist but are not exploited because investors with the interest and ability to exploit these opportunities, particularly foreign investors, are unaware of potential projects. Investment promotion efforts to date have been meagre.

2. Lack of Entrepreneurial and Managerial Capacity.

As in many developing areas, West Indian entrepreneurial and managerial skills are in the short supply and tend to be centralized in the agricultural and commercial sectors. Foreigners have partially filled this shortage, but a considerable gap remains. Caribbean Governments have little capability to undertake the entrepreneurial function and should be discouraged from doing so.

3. Limited Resource Base.

Because the region has limited natural resources, Caribbean industry is heavily dependent on imported raw materials. In many cases skilled labor is also in short supply.

4. Use of Inappropriate Technology.

West Indian economies do not exhibit the degree of economic dualism found in many African, Asian and Latin American developing countries. There is, nevertheless, a marked inequality in the distribution of the capital stock, and, of course, considerable labor resources are unemployed. Three factors are largely responsible. First, investment incentives, interest rate and tax policies distort factor prices somewhat in favor of capital. Second, investors may frequently be unaware of financially attractive technical alternatives which are more labor intensive. Finally, the financial system, as in most developing countries, does not adequately serve small businesses which tend to be more labor-intensive.

5. Difficulty in Obtaining Credit.

Although in some territories there is little liquidity in the banking system, the problem more often stems from the manner in which the financial institutions operate. Commercial banks tend to be conservative and restrict lending to established customers and to agriculture, commerce and consumer loans. Because of their dependence on short-term deposits, banks are hesitant to lend beyond three years. These terms and conditions may be too restrictive for many new or expanding industries. The DFCs, which have special lines of credit for small businesses, in most cases have not proven to be effective in administering these programs.

The lack of foreign exchange is a related problem which constrains business operations. Particularly in Jamaica and Guyana, the lack of foreign exchange has caused businesses to cut-back operations because they were unable to obtain imported spare parts and raw materials.

6. Inappropriate Government Policies.

In several countries frequent changes in policy or antipathy on the part of Government leaders toward the private sector have established an investment climate which has discouraged investors and encouraged the emigration of local businessmen and professionals. Some foreign investors may have been frightened away not only from the territories involved but from the Caribbean in general. Studies by the World Bank and others have emphasized the negative impact that uncertainty about economic and political policy has had on investment and urged all Governments to adopt more constructive postures.

The influence of investment incentives has been positive, and these policies, with some modifications, should be continued. The program of providing factory shells for rent within industrial estates has been effective and requires expansion under improved physical and financial planning and management.

B. SECTORAL STRATEGY

AID's basic objective in the manufacturing and service sectors is to increase the employment and income of the poor by absorbing workers into productive activities in these sectors. This in turn requires appropriate policies and programs which stimulate investment, particularly in labor-intensive activities.

AID's effort to create those policies and programs, this project being an integral part thereof, can best be explained against the six constraints identified in the previous section.

1. The Limited Number of Financially Viable Projects.

The size of the Caribbean market can be increased over time as income and purchasing power grow, but this will have only a marginal effect on the viability of projects in the next decade. In the meantime emphasis must be placed on producing for export markets. Basic training and technical assistance for firms wishing to enter export markets can be provided under AID's Regional Development Training project while technical assistance will be provided under this project.

This project also provides assistance to perspective exporters through the development of additional industrial estates. Although factory space in industrial estates will be available to firms producing for the domestic and CARICOM market as well, rental space is particularly important to foreign-owned export industries since these firms frequently prefer not to own overseas property.

Several efforts are being undertaken to increase investors' awareness of profitable opportunities which do exist within the industrial sector. First, under the previously authorized Employment/Investment Promotion Grant, the CDB will provide the services of a development banking specialist to assist the participating DFC's and commercial banks. Second, under the grant portion of this project, a Small Business Advisor will be assigned to each participating financial intermediary to assist potential investors in the development of their projects. Third, profitable investment projects will be identified and publicized by the TRF and through CDB/CIDA/IDB feasibility studies. Finally, the CDB will itself initiate a more agressive program of identifying potential entrepreneurs and profitable industrial projects.

2. Lack of Entrepreneurial and Managerial Capacity.

To increase entrepreneurial and managerial capacity, AID will provide both training and technical assistance. Training will be provided through specially organized and designed seminars under the recently authorized Regional Development Training Project. It is anticipated that seminars for small business and those wishing to form small businesses will be held in each of the LDC's to familiarize entrepreneurs and managers with simple procedures of organization and management, financial planning and control, inventory control, pricing, obtaining credit, purchasing and marketing. Regional seminars are planned to assist more firmly established businesses to expand into new lines and new markets.

3. Limited Resource Base.

Although natural resources obviously cannot be created where they do not exist, efforts can be undertaken to better manage existing resources and to exploit resources which are presently neglected. Most important among the resources requiring better management are the marine resources, beaches (a principal resource for tourism) and timber. Although AID has no Caribbean program in these areas, consideration will be given in FY 1980 or 1981 to an environmental program including these components.

Programs which lower the cost or improve the quality of local resources can increase the profitability of investment. Opportunities may exist, for example, to tap local, renewable energy resources and thereby lower the cost of power in the future to the industrial sector. A project to explore these opportunities is now being planned and will be authorized in FY 1979.

Given the limited physical resources, the major resource utilized in most West Indian manufacturing will be labor. Improving the quality of this resource will thus encourage increased investment and employment. To better prepare West Indians for productive roles in society, AID is financing major education and training programs. Several AID programs designed to improve health conditions will further enhance labor productivity.

4. Use of Inappropriate Technology.

Several activities are being assisted to encourage the utilization of more labor-intensive technology. First, the CDB is being assisted under an existing AID grant to establish a Technology Information Unit (TIU) within its structure. The TIU will provide information on alternative technologies to public and private sector investors and will review loan requests to the Bank for the appropriateness of the technology to be employed. The same grant provides assistance for the establishment of a Technology Research Fund (TRF) which will finance pilot research and demonstration projects to encourage the utilization of more appropriate technologies.

AID is also making available special lines of credit for labor-intensive enterprises and providing technical assistance to the financial institutions administering those programs. Credit of this type is provided under AID's Agribusiness Development Loan (538-T-007) as well as under this project. Technical assistance for the financial intermediaries, will also be provided so that they might improve the efficiency of their operations.

5. Difficulty in Obtaining Credit.

The proposed project is AID's principal effort to increase the availability of credit to the manufacturing sector and particularly to the small business community. The project not only provides needed credit but incorporates several important changes in the policy and procedures of the financial intermediaries. These include increased use of commercial banks as intermediaries providing medium and long-term industrial financing coupled with changes in the role of commercial banks to make them more development oriented; changes in the interest rates charged for industrial loans by the remaining DFCs to increase their income and reduce subsidies to DFC clients; changes in the pricing policies of the industrial estates to eliminate rental subsidies which are a drain on Government resources; changes in the CDB's heretofore passive attitude toward direct industrial lending; and changes in CDB's policy on financing of working capital.

The shortage of foreign exchange is alleviated by all AID projects to the extent that these projects provide dollars to finance either local costs or the dollar costs of goods or services which in any case would have been imported. However, the increased foreign exchange available is often allocated by Governments to public sector uses and has little impact on the private sector. A program such as is proposed in this paper can, however, directly increase the availability of imported capital goods to the productive sectors. RDO/C is also studying ways in which CDF resources could be used to alleviate this constraint.

6. Inappropriate Government Policies.

Government policies determining investment climate are not a variable that AID can influence directly. However, AID will continue to support the CGCED and the efforts of the World Bank, the IMF and others to draw attention to this factor. Further, through the various AID efforts to assist the indigenous private sector, that sector should gradually become a more effective advocate of its own interests.

Industrial estates and factory shells, an infrastructure area into which previous AID funds have gone, are of particular importance in the Caribbean because of their value in attracting foreign investors who bring much needed technical and managerial skills. The World Bank recommends expansion of this program in many of the islands. The proposed project will permit financing for the construction of additional industrial estates and technical assistance to improve the manner in which they are managed.

FINANCIAL SYSTEMS IN THE CARIBBEAN

A. OVERVIEW OF THE SYSTEM*

The economies of the region are mixed, with both the public and private sectors playing important roles. The countries vary greatly in this respect, however, with Guyana having assigned the most important role to the public sector. This review will concentrate on investment activity in the private sector, which is the dominant form in most of the countries of the region. All countries, including Guyana, are interested in expanding private investment in the non-agricultural directly productive sectors.

Both as collectors of private savings and as lenders to the private sector the private commercial banks, many of them foreign owned, are the most important financial institutions in the region. Traditionally, under the colonial system they played a key-role in thedevelopment of the agricultural export sectors and the import trade. As the economics of the region have developed over the past thirty years the commercial banks have entered many new fields particularly tourism, manufacturing, and personal installment credit. The involvement in the financing of food crops for domestic production has also increased, and efforts are being made to participate in the financing of small holder agriculture.

The private commercial banks have a long and broad experience in the region. In more recent years Candian and U.S. banks have established offices in many of the countries of the region, and there are now a large number of banks serving even the smaller territories. Competion for loans and deposits has increased. Some of the newer banks establishing themselves in the region had more progressive management, and this has had an effect upon the other banks operating in the region.

While changes have taken place, the banks, with their heavy dependence on domestic deposits with a maturity of one year or less and with the volatility of deposits associated with high dependence on external trade and capital movements, have been reluctant to extend medium and long term loans. Moreover, with the limited development of the manufacturing sector, it was considered more prudent to reserve whatever medium term lending was available to the real estate and installment sector categories. More important, the experience, training and organization of the banking sector had so long been oriented toward the distributive sectors, the banks have been reluctant to shift rapidly to the newer sectors, particularly manufacturing.

In manufacturing and tourism, the banks continued to focus on short-run liquidity analysis, which gives an edge to the well established larger business enterprise with excellent credit records. Small and medium scale enterprise in these "high risk" sectors were not easy to incorporate into the banks' clientele. Bank staffs have not been trained to assess projects in this area, although it must be recognized that their knowledge of the business community gives them a head start compared with newer institutions without broad contacts.

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* Portions of this section are excerpted from Mr. Gerald Alter's report, "A Proposal A Caribbean Industrial Finance Facility for Small Scale Enterprises", prepared under AID Contract C-BRG-538-79-002. The views expressed, however, are those of the Project Team and should not be attributed to Mr. Alter without checking the original report.

Partly in response to the real and partly in response to the perceived limitations of the commercial banks many governments in the region have established development finance corporations (DFCs), industrial finance corporatio and the like. These institutions were established some years ago in the MDCs and only in the 70's in the LDCs. In some cases these governmental entities were designed to serve larger borrowers as well as small borrowers in the new sectors; sometimes they were designed to provide medium and long term finance not only to manufacturing but also to agriculture, students and housing. In a few instances separate financial corporations were set up to serve the very small manufacturing sector.

The experience with these institutions has been mixed, although virtually all have had serious financial problems. (SeeInstitutional Analysis). Governments have been reluctant and sometimes unable to provide equity capital sufficient to cover operational needs for even a few years ahead. Lending decisions have frequently been made under political pressure.

Government financial institutions serving a broad spectrum of business clients must necessarily be extending loans to enterprises whose owners are among the more affluent members of the society. It is not easy to justify the losses incurred in lending to such enterprises in the region's current political environment. This makes it doubly difficult to rehabilitate and restructure the finances of government-owned institutions which find themselves with severe financial problems requiring the immediate injection of new equity capital and the provision of cash resources. The fact that DFC interest rates have been subsidized (usually fixed at 8%) has increased the political pressures influencing credit allocation and decreased the income below levels the market would support.

The government-owned DFCs which operate in the LDCs of the region have particularly serious problems calling for immediate solution. These problems have been thoroughly analyzed in a recent study commissioned by AID, "Employment Generation Through Industry and Commerce". The countries covered include the Leeward and Windward Islands and Belize. While these DFCs suffer from a wide range of deficiencies, they have an underlying weakness stemming from the limited size of the markets served, present and projected, and the relatively high cost of serving such markets through specialized credit institutions.

In evaluating the financial system serving non-agricultural directly productive enterprise in the region it is useful to distinguish among three groups of borrowers: (1) large and experienced enterprises, both domestic and foreign, which may or may not have their experience in directly productive sectors but which have gained the full respect of the commercial banks and have an excellent credit record, (2) small and medium scale enterprises controlled and/or managed by persons with some business experience, usually no record of performance in manufacturing, but with contact with commercial banks as borrowers, and (3) small scale enterprises with little if any business experience, being promoted by persons having only little net worth and no experience in borrowing from the commercial banking system.

B. <u>LARGE ENTERPRISES</u>

This first group is served well, having access in the commercial banks not only to short term working capital loans but also medium term finance for covering their fixed capital requirements. Most of these enterprises are able to obtain five year term loans and many are able to repay on the basis of a ten year amortization schedule with high probability of renewal for another five years at the expiration of the first five year term.

The interest rate on these term loans is not necessarily fixed, the lender frequently having the option to increase the rate at the beginning of each year, depending on market conditions. Most of these borrowers enjoy prime interest rates, presently 8 - 9%. The larger foreign and domestic enterprises in this group also have access to foreign capital via their banks for medium term export credit for capital equipment.

Domestic enterprises in this group or the domestic partners of foreign enterprises would presumably have greater difficulty in mobilizing the equity contribution which would be required in a booming investment environment, but there are regional institutions having the authority to provide such requirements (CDB and CIC).

With respect to this first group, when the individual investment project would call for resources in a volume beyond the capacity of a single commercial bank in the area, there are regional and international sources of term finance and equity, including the CDB, IDB, IBRD and IFC. If projects require even longer terms than the commercial banks can provide, these institutions are available for meeting the needs of large undertakings. This is true even for countries in which, because of perceived country credit risks, foreign private credit is not generally available. The recent IFC investment in Guyana is the most notable example.

Many of the firms (including foreign enterprises) capable of entering the export markets fall in this first group. There is a growing consensus in the region that the expansion of manufacturing oriented to exports is very important in the near term for creating employment opportunities and easing balance of payments constraints. If promotional activity already initiated in many of the countries of the region and designed to attract foreign enterprises meets with success, there could be a substantial increase in the demand for loan funds by this first group. In some fields - hotel construction for example - recourse for a substantial part of investment funds to local financial institutions is customary. Hotel construction, however, has not been taking place on a large scale in the last few years. Foreign enterprises of the type attracted to the region are accustomed to lease rather than construct factory buildings.

The CDB will wish to keep under continuing review the financial needs of this first group of business enterprises which can appropriately be filled by the direct action of the CDB itself or allied regional and international financial institutions. Joint or parallel financing arrangements with commercial banks and other institutions should be considered if the need arises.

C. EXPERIENCED SMALL AND MEDIUM SCALE ENTERPRISES

Firms in this group already in the manufacturing field, recognized to have a high level of business competence, adequate collateral, are probably doing reasonably well in obtaining access to short-term credit so long as overall credit conditions in the country concerned are not tight. However, the banks generally do not provide the longer term credit (beyond five years) necessary for plant expansion or new projects. Banks are understandably hesitant to borrow short and lend long. However, leading bankers have indicated a willingness to lend on longer terms if banks themselves could obtain funds on a longer term basis.

For the new firms in manufacturing, greater difficulties are being encountered. It is not easy for such firms to obtain credit on adequate terms, including a long enough period of grace on principal repayments to ease the cash flow during the start-up and initial market penetration period. The banks are often unwilling to grant five to ten year loans to this group, and the renewal of overdraft facilities in the case of a credit squeeze is more in doubt.

Given the difficulties which these enterprises face even when reasonably well managed, it is important for them to have access to permanent working capital on a medium term basis. This is seldom provided either by the commercial banks or the DFCs and is cited by the World Bank as an important constraint on industrial growth. Strengthening of financial mechanisms to serve the needs of this second group appears to be important principally in Antigua, Barbados, Guyana, Jamaica, and St. Lucia. Assistance in project identification and preparation as well as improvements in the administration of the incentive systems, would benefit this group of business.

D. INEXPERIENCED SMALL SCALE ENTERPRISES

It is even more important that this third group have access to term finance, with perhaps even longer maturities and periods of grace. This group must also gradually gain business experience and have access to training and technical assistance.

Providing finance to this third group on appropriate conditions is very costly, and it requires a high level of organization, coordination, and management skills among the financial institutions and other bodies which will be providing technical assistance. Adequate delivery systems have not yet been established in most Caribbean territories with the result that the needs of this group are not being met.

The risks associated with lending to this third group are so great that profit-seeking financial institutions can seldom be induced to participate in programs serving the group even under credit guarantee programs. It is usually not politically feasible to charge the interest rates required to cover costs, including the charges required to build up reserves to cover the high rate of default which must be expected on such loans. DFCs, which have attempted to serve this group, have been charging only 8% interest to small borrowers.

Under existing conditions private banks operating in the region cannot be expected to deal with enterprises in this third group. If the private banks become the only financial intermediaries available, it becomes increasingly critical that the inexperienced small scale enterprises have ready access to training and technical assistance to help them to reach the degree of maturity that the commercial banks require.

PROJECT DESIGN SUMMARY

LOGICAL FRAMEWORK

Life of Project:
From FY 79 to FY 83
Total U.S. Funding 9,800
Date Prepared 5/79

Project Title & Number EMPLOYMENT/INVESTMENT PROMOTION 538-W-12 538-0013A

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Program or Sector Goal: The Broader Objective to which this project contributes	Measures of Goal Achievement:		Assumptions for achieving goal targets:
To increase employment and income of the poor in the English-speaking Caribbean Region 1/ 1/ More Developed Countries (MDC's) Barbados and Guyana; Jamaica if IBRD funds are not available. Lesser Developed Countries (LDC's) Antigua, Belize, Dominica, Grenada, Montserrat, St.Kitts/Nevis/Anguilla, St.Kitts, St.Vincent, British Virgin Islands, Cayman Islands and Turks & Caicos Islands	Improvement in the employment opportunities in the sectors addressed by the project as indicated by an increase in available jobs. Increased productivity and income generated by the industrial sector of the Region.	Labor records of the Governments of the Region. IBRD Reports. Project reports of the Caribbean Development Bank (CDB) Project reports and evaluations. Regional economic reports, increase in the industrial sector percentage of the GDP.	The development and growth of the industrial sector and appropriate employment generation continues to be of high priority to the Governments of the Region. Other donors will continue to provide economic assistance to the Region in investment areas which generate employment.
Project Purpose:	Conditions what will indicate purpose has been achieved: End of project status:		Assumption for achieving purpose:
To stimulate the investment in small and medium businesses necessary to increase production and employment in the region.	Some 1,850 permanent jobs generated by 1983. * A $14 million increase in investment in the industrial sector of the region. CDB commitment of $8.4 million in loan funds to industrial projects in the region. * Does not include some 1,000 person years of employment in the construction industries and related indirect jobs.	Semi-annual and annual reports of the CDB. Commercial Bank Records. Eastern Caribbean Country Authority (ECCA) Reports. Project reports and evaluations.	The incentives for investment in enterprises and sufficient to encourage firms to enter the economy. Continued inflation in fuel prices will not further economic disequilibrium to the jeapardy of small and medium enterprises.

PROJECT DESIGN SUMMARY

LOGICAL FRAMEWORK

Life of Project:
From FY 79 to FY 83

538-W-12

Total U.S. Funding 9,800

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Date Prepared 5/79

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Outputs:	Magnitude of Outputs:		Assumptions for Achieving Outputs:
The increase of viable and effective lending facilities by which the CDB on-lends to small and medium industries. Financial support for the development of industrial estates. Subloans providing credits to small and medium industry. Strengthening of the enterpreneurial and managerial capacity in the region.	2 - 4 Regional commercial banks operating with CDB/Government experimental lending arrangements. 3 -5 Revitalized DFC's in operation. 5 sub loans for the development of industrial estates. 150 sub loans annually to small and medium businesses. 42 person years of technical assistance.	AID and CDB Records (e.g sub-loan portfolio). Commercial Bank Records (as available)	The Governments of the region and participating institutions will continue to emphasize lending for the expansion of small and medium industries. Financial institutions will be active in sub-loan promotional efforts. Capable personnel will be hired by financial institutions to provide an assigned counterpart support to contract TA personnel.
Inputs:	Implementation Target (Type and Quantity)		Assumptions for Providing Inputs:

(US$000)	TOTAL	1st yr	2nd yr	3rd yr	4th yr	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
AID	9,800					AID and CDB Records	Needed inputs will be made on a timely basis.
AID Loan funds	8,400	1,400	3,000	2,500	1,500		
AID Grant funds T.A	1,400	250	400	400	350		
CDB	510						
Admin expenses	510	90	170	150	100		
Governments & Others	2,050						
Assuming 80% loaned	1,680	280	600	500	300		
T.A. Counterparts	370	50	80	120	120		
	12,360						

SUMMARY OF SELECTED POSSIBLE CDB/AID INDUSTRIAL LENDING ACTIVITIES IN SIX LDC'S - FROM 1979 to 1983 1/

DIRECT LENDING	Loan Amounts and Year of Commitment 2/ US$000 '79	'80	'81	'82	TOTAL
Industrial Estates	565	895	1645	1510	4615
Industrial Projects	304	1497	871	1998	4670
Sub Total	869	2392	2516	3508	9285
ON-LENDING					
Industrial Credits	445	600	1300	910	3255
TOTAL	1314	2992	3816	4418	12,540

1/ Source IBRD Island Reports March 19, 1979; Belize, Dominica, Montserrat, St.Lucia, St.Kitts and St.Vincent

2/ No lender has been identified

3/ Some projects are duplicates of those indentified by CDB

ILLUSTRATIVE LISTING OF POSSIBLE LDC INDUSTRIAL LENDING ACTIVITIES [1/]

Activity	Country[2/]	US$000's Loan Amount[3/]	Counterpart	Project Total	Year of Commitment	Status
Direct Lending						
Industrial Estates						
30,000 sq.ft	Dominica	395	45	440	80	Concept only
N.A.	Belize	510	-	510	82	CDB to be approved
25,000 sq.ft	Montserrat	435	-	435	79-80	Feasibility Study completed
32,000 sq.ft	St.Lucia	1,185	-	1,185	80-81	Shells being designed
N.A.	St.Kitts	130	-	130	79-80	Continuation of project
85,000 sq.ft	St.Vincent	960	240	1,200	81-82	Extension of program
190,000 sq.ft	Antigua	1,000	110	1,100	81-82	Request to CDB
	SUB-TOTAL	4,615	395	5,000		
Direct Lending Contd...						
Industrial Projects[4/]						
Pilot Wood Working	Dominica	41	-	41	79	TRF
Intermediate Tech.Bldg Materials	Dominica	83	11	94	79	TRF Feasibility Study completed
Knitwear	Dominica	535	43	578	80	Feasibility Study completed
Coir Extracting	Dominica	463	36	499	80	Feasibility Study to be done
Paper converting	Belize	160	15	175	79-80	CDB approved
Knitwear	Montserrat	104	-	104	80	Feasibility Study being Conducted
Leather work	Montserrat	215	-	215	79-80	Feasibility Study completed

/Contd.....

Activity	Country 2/	Loan Amount 3/	Counterpart	Project Total	Year of Commitment	Status
Direct Lending - Industrial Projects 4/ /Contd....						
Crafts Industry	St.Lucia	97	-	97	81	Project identified
Free Zone	St.Lucia	1,400	600	2,000	82-83	Feasibility Study in progress
Handicrafts Program	St.Vincent	224	-	224	81-82	Project identified
Free Zone	St.Vincent	200	-	200	80	Project identified
Industrial Lime	Antigua	1,000	250	1,250	81-82	Market Study completed
Handicraft Center	Antigua	148	148	296	81-82	Project identified
	SUB-TOTAL	4,670	1,103	5,773		
On-Lending						
Industrial Credits	Dominica	445	-	445	79	CDB to be contacted
Industrial Credits	Belize	1,510	167	1,677	81-82	CDB considering
Industrial Credits	St.Kitts	200	-	200	81-82	Continuation of program
Industrial Credits	St.Vincent	1,100	-	1,100	80-81	Continuation of program
	SUB-TOTAL	3,255	167	3,422		
	TOTAL	12,540	1,665	14,195		

1/ Source IBRD country position and projects reports March 16, 1979

2/ The Grenada Report did not identify any Industrial projects but did indicate continued growth in the Industrial Sector could be expected.

3/ No source of these funds has been identified

4/ Projects under $150,000 are recommended to be financed under the on-lending program of the appropriate financial institution

ACTUAL AND PROJECTED LENDING PROGRAMME - 1970-1982
(US$mn)

	OCR	SDF	Other Special Funds	Total	
AGRICULTURE	12.73	8.57	16.61	37.91	
- Agro-Industry	0.12	0.90	1.10	2.12	1.51
- Crops	3.85	1.09	0.11	5.05	3.60
- Livestock	0.43	0.97	2.46	3.86	2.75
- Fisheries	-	-	-	-	-
- Forestry	-	-	-	-	-
- Marketing	-	2.12	-	2.12	1.51
- General	8.06	2.28	12.93	23.27	16.58
- Other	0.27	1.21	0.01	1.49	1.06
INFRASTRUCTURE	10.69	40.19	5.37	56.25	
(a) Ports	7.52	27.76	1.23	36.51	26.01
- Sea & related	7.32	22.03	1.23	30.58	21.79
- Air & related	0.20	5.73	-	5.93	4.23
(b) Roads & Bridges	2.87	6.62	0.74	10.23	7.29
- Main Roads	(1.10	(0.65	(0.13	(1.88	(1.34
- Bridges	(	(	(	(	(
Feeder Roads	1.77	5.96	0.61	8.34	5.94
(c) Public Utilities	0.30	5.19	3.36	2.85	6.31
- Sewerage	(0.30	(1.58	(3.36	(5.24	(3.73
- Water	(	(	(	(	(
- Electricity	-	3.61	-	3.61	2.57
- Telephone	-	-	-	-	-
(d) Other	-	0.62	0.04	0.66	0.47
HOUSING	7.10	-	6.77	13.87	
- Sites & Services	-	-	-	-	-
- Rehabilitation	-	-	-	-	-
- Primary Mortgage	2.14	-	6.77	8.91	5.35
- Secondary Mortgage	4.96	-	-	4.96	3.53
INDUSTRY	6.18	12.75	7.06	25.99	
- Manufacturing	-	1.70	2.20	3.90	2.78
- Industrial Estate	1.62	5.37	0.10	7.09	5.05
- General	4.56	5.68	4.76	15.00	10.69
TOURISM	2.59	0.25	1.12	3.96	
- Hotels	1.59	0.06	0.47	2.12	1.51
- Support Services	1.00	0.19	0.65	1.84	1.31
STUDENT LOANS	-	2.37	-	2.37	1.69
GRAND TOTAL	33.29	64.13	36.93	140.35	100.00

LDC	MDC	Regional	Total	
34.25	38.48	20.60	93.32	
4.36	1.00	0.75	6.11	2.35
2.64	6.24	8.50	17.38	6.71
7.24	13.74	3.50	22.18	6.56
2.00	0.75	-	2.75	1.06
-	-	-	-	-
2.75	-	2.00	4.75	1.83
14.97	16.75	3.50	35.77	13.80
0.30	-	-	0.30	0.11
37.36	11.50	-	48.86	..
3.20	-	-	3.20	1.23
1.50	-	-	1.50	0.58
1.70	-	-	1.70	0.66
14.74	-	-	14.74	5.69
3.00	-	-	3.00	1.16
0.75	-	-	0.75	0.29
14.74	-	-	14.74	5.69
19.42	3.00	-	22.42	8.65
1.75	-	-	1.75	0.68
8.00	2.00	-	10.00	3.86
8.42	1.00	-	9.42	3.63
1.25	-	-	1.25	0.48
-	8.50	-	8.50	3.28
8.99	11.85	-	20.84	
0.75	2.00	-	2.75	1.06
0.50	-	-	0.50	0.19
0.20	8.50	-	8.70	3.36
7.54	1.35	-	8.89	3.43
23.86	27.20	30.90	81.96	
7.16	7.80	23.40	38.36	14.80
11.05	11.00	-	22.05	8.51
5.65	8.40	7.50	21.55	8.32
3.06	6.00	1.60	10.66	
2.37	6.00	1.60	9.97	3.85
0.69	-	-	0.69	0.27
3.50	-	-	3.50	1.36
111.02	95.03	53.10	259.15	100.

SOFT RESOURCES

PROJECTED APPROVALS, COMMITMENTS, DISBURSEMENTS (1978 - 1982)

(US$'000)

	1978			1979			1980			1981		
	Approvals	Commitments	Disbursements	Approvals	Commitments	Disbursements	Approvals	Commitments	Disbursements	Approvals	Commitments	Disbursements
1. AGRICULTURE	11,200	11,583	7,991	7,140	9,266	10,708	[illegible]	8,338	10,214	8,460	8,328	8,939
MDC	1,008	946	594	357	630	793	[illegible]	1,578	999	2,453	2,193	1,384
LDC	10,192	10,639	7,397	6,783	8,636	9,915	6,176	6,760	9,215	6,007	6,135	7,555
Regional	-	-	-	-	-	-	-	-	-	-	-	-
2. TECHNICAL	5,760	7,956	6,000	5,280	6,396	8,699	4,140	4,644	7,168	3,200	3,690	5,351
MDC	-	315	360	-	105	451	-	-	233	-	-	69
LDC	5,760	7,641	5,640	5,280	6,291	8,248	4,140	4,644	6,935	3,200	3,690	5,282
Regional	-	-	-	-	-	-	-	-	-	-	-	-
3. INDUSTRY	1,200	3,152	3,132	3,850	3,481	4,309	1,210	2,001	3,564	4,620	3,520	3,007
MDC	492	455	273	-	205	379	-	49	290	647	388	220
LDC	648	2,651	2,850	3,850	3,258	3,913	1,210	1,946	3,253	3,973	3,132	2,775
Regional	60	36	9	-	18	17	-	6	21	-	-	12
4. EPAD	1,260	1,121	865	530	817	1,146	2,220	1,617	1,181	1,400	1,559	1,361
MDC	756	480	61	74	279	80	133	178	83	112	114	95
LDC	504	641	804	456	538	1,066	2,087	1,439	1,098	1,288	1,445	1,266
Regional	-	-	-	-	-	-	-	-	-	-	-	-
5. TOTAL	19,420	23,814	17,988	16,800	19,960	24,862	16,030	16,600	22,127	17,680	17,097	18,658
MDC	2,256	2,206	1,788	431	1,219	1,703	2,417	1,805	1,605	3,212	2,695	1,768
LDC	17,104	21,572	16,691	16,369	18,723	23,142	13,613	14,789	20,501	14,468	14,402	16,878
Regional	60	36	9	-	18	17	-	6	21	-	-	12

ILLUSTRATIVE LISTING OF SELECTED CDB PROPOSED LENDING ACTIVITIES

ACTIVITY	COUNTRY	US$000's PROJECT LOAN LEVEL 1)	YEAR OF LOAN COMMITMENT	COMMENTS
DIRECT LENDING				
INDUSTRIAL ESTATES				
190,000 sq. ft.	ANTIGUA	1.0	AUG 1979	Prefeasibility study is currently being reviewed
100,000 sq. ft.	BELIZE	1.5	LATE 1979	Dependent of expected occupation of existing facilities
190,000 sq. ft.	BARBADOS	2.5	1979-1980	Ongoing program funds not identified
20,000 sq. ft.	ST. KITTS	.25	1980	In preliminary planning stages
25,000 sq. ft.	MONTSERRAT	.3	1980	Projected project of the GOM
INDUSTRIAL PROJECTS				
Building Materials Hydrated Lime, 8,000 Ton Annually	ANTIGUA	1.2	1979	Project proposal being reviewed by CDB
Paper Conversion Tissue	BELIZE	.16	1980	Prefeasibility study completed
Construction Hotel expansion (JABWOCK)	ANTIGUA	.35	1979	Project under review by CDB
Box Fabrication (Cardboard)	DOMINICA	.15	1980	Projected by the GOD
Sugar by products (Confections)	ST. KITTS	.30	1981	Prefeasibility study completed
		7.71		

1) A source of funding has not been identified. AID loan 538-L-003 is fully committed

ACTIVITY	COUNTRY	PROJECT LOAN LEVEL	YEAR OF LOAN COMMITMENT	COMMENTS
ADDITIONAL ON-LENDING				
Small Industry	BELIZE	.5	1979	Pending CDB Review
DFC	ST.KITTS	.2	1979-1980	Pending adjustment to DFC Management
DFC	ANTIGUA	.4	1981	Projected CDB Staff estimate
DFC	DOMINICA	.3	1981	Projected CDB Staff estimate
DFC	ST. VINCENT	.5	1979	Pending Application
Commercial Banks	GUYANA	1.6	1979-1981	Project team estimate
Small Industry Credits	GUYANA	3.0	1980	CDB Presently reviewing, staff estimate Agri/Ind Bank
Small Industry Credits	BARBADOS	2.5	1979-80-81	Project under development Staff estimate Development Bank
		9.0		
SUMMARY				
DIRECT LENDING		7.71		
ON LENDING		9.00 2)		
3)		16.71		
ADJUSTED TOTAL				
DIRECT LENDING		3.86		
ON LENDING		4.50		
		8.36		

SOURCE: Unpublished data of CDB's project Department 02/28/79

2) This total excludes projects (salt, cement, flour mills) which are too large to be considered feasible for this project funding levels or may be developed with funds of the Agro/Industry Loan 538-007 A & B.

3) Reduction of 50% to compensate for projects which may not materialize on slippage.

CALCULATION OF INVESTMENT PER JOB CREATED CUT-OFF POINTS
FOR ELIGIBILITY IN WORLD BANK'S URBAN POVERTY PROGRAM

1977 FIGURES

	Pop. (000)	GDP/Cap 1/	Investment Rate (IR) 2/	Participation Rate (PR) 3/	GDP/Cap. x IR/PR	Maximum Cost (1977 dollars) per 15 year job equivalents
Guyana	770	560	18.5	.314	330	4,950
Jamaica	2,017	1,150	21.0	.337	717	10,760
Barbados	250	1,490	21.5	.326	983	14,740
Belize	130	810	31.9	.326	792	11,889
Antigua	73	890	17.7	.326	483	7,248
Dominica	77	410	21.5	.326	270	4,056
Grenada	105	480	15.8	.326	233	3,490
St. Kitts/Nevis	50	650	16.9	.326	337	5,054
St. Lucia	106	580	49.7 4/	.326	884 4/	13,264 4/
St. Vincent	103	330	26.0	.326	263	3,948
Montserrat	130	745	38.7	.326	884	13,266

1/ IBRD figures

2/ Rate of gross domestic investment as reported by World Bank

3/ Participation rates for Guyana and Jamaica are from World Bank study on eligibility criteria for its Urban Poverty Program. As the Mission did not have reliable figures for other countries, it was assumed that the participation rates were the average of the Guyana and Jamaica rates.

4/ The St. Lucia investment rate is distorted by the large Hess Oil investment.

The Employment Effect of Existing

CDB/DFC Small Industry Credit Program

The principal guide to the employment effects of the proposed extension of $3.9 million in credit through local financial intermediaries to small and medium sized enterprise is the performance of past CDB/DFC programs. The economic effects of those programs are summarized in Table III A. The table, which is based on loan applications rather than ex post evaluation, shows that 152 investment projects were financed at a total cost of approximately $1.5 million. The borrowers anticipated that the projects would create 435 permanent jobs. The investment/permanent job* created would thus be about $3,500.

This estimate should be adjusted in two ways. First, according to an AID consultant who visited each of the LDCs, actual number of jobs created has not reached the projected levels. Second, the prices should be expressed in 1979 dollars. If we assume actual employment to be only 75% of that projected and a 20% average inflation since the investments occurred, the investment cost per worker in 1979 dollars would be approximately $5,700.

TABLE III-A

EFFECTS OF CDB/DFC SMALL INDUSTRY CREDIT PROGRAM

	NUMBER OF INVESTMENT PROJECTS	VALUE OF DFC LOANS (US$000)	TOTAL INVESTMENT COST (US$000)	PERMANENT JOBS CREATED	LOAN VALUE PER JOB (US $)	TOTAL INVESTMENT PER JOB (US $)
Antigua and Barbuda	7	79.5	92.3	20	3,977	4,615
Belize	75	422.0	518.0	139	3,035	3,726
Dominica	7	89.1	90.9	41	2,172	2,218
Montserrat	10	99.0	103.4	15	6,600	6,896
St. Kitts/Nevis/ Anguilla	5	38.4	43.3	11	3,495	3,933
St. Lucia	12	135.7	149.3	52	2,610	2,870
Turks & Caicos	5	84.2	84.2	24	3,508	3,507
St. Vincent	31	363.7	461.5	133	2,734	3,470
	152	1,311.6	1,542.9	435	3,015	3,547

SOURCE: CDB's quarterly report on AID Loan 538-T-001 and 538-T-003; August, 1978.

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*"Permanent" is defined here as equal to the life of the capital assets and is assumed to average 15 years.

Evaluation of Existing AID/CDB Financed Industrial Estates*

Investment in industrial estates of $4.4 million generated approximately $6.5 million of additional investment in machinery and equipment. These investments resulted in permanent employment for some 2,006 workers. The physical plant cost was thus approximately $2,200/worker, the average investment in equipment $3,200/worker, and the total average fixed investment $5,400 per permanent job created. However, these figures are underestimated in 1979 prices because the underlying plant and equipment costs were incurred over the period 1973 to 1978. To translate these figures into 1979 dollars it was assumed that the average investment occurred in 1976. Total investment in 1979 prices is estimated at $18 million and the average investment cost per permanent job created in 1979 prices was approximately $7,200. These figures do not take into account the temporary employment generated during the construction phase or the indirect employment generated.

The impact on GDP appears also to have been impressive. The data from the six estates from which sufficient data could be obtained indicate a capital-output ratio of 1.3 and a total annual contribution of GDP of approximately $10 million. Annual (recurrent) expenditures on domestic resources total approximately US$3.8 million of which labor costs represent 79%. The size and domestic economic impact of the profits generated is unclear because 18 of the 26 firms are listed as foreign owned, and it is not known to what extent profits are repatriated or reinvested.

Government revenues generated by the increase in economic activity are limited since virtually all the firms occupying the estates enjoy exonerations from import duties, income tax holidays and other investment incentives. Such additional fiscal revenues as are generated result primarily from the increased personal income taxes paid by otherwise unemployed or underemployed persons. Rental income (about $300,000/year) and taxes on the suppliers of raw materials also add to the government income. On the negative side, Governments must service construction loans (about 325,000/year) and maintain the building and grounds. Despite the fact that the estates themselves are subsidized, the net fiscal effect is certainly positive.

Despite the liberal import policies enjoyed by most firms in the estates and the limited use of local raw materials, the net balance of payment effect is highly positive. Total direct imports in 1978 by the firms in the estates surveyed was approximately $5.0 million. Locally procured goods also have a high import content. The import content of energy, transportation and other goods and services procured locally may be as high as 50%. The import content of construction is estimated at 25%, and virtually all capital goods are imported. The overall direct and indirect import content of production is probably in the neighborhood of 60%. The

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* This Annex is based on a study conducted by Clapp and Mayne.

net balance of payments effect is, nevertheless, positive because approximately 86% of the manufactured output is exported. The consultants estimated that 64% of these exports were to non-CARICOM members.

Measuring the financial or economic rate of return to the investment in industrial estates is complicated by the fact that rental rates have been highly subsidized. Thus, as presently administered, the estates are not financially viable operations. The total economic subsidy for the presently occupied 375,257 square feet of space amounts to about $0.5 million annually.

As rental rates are not established in a competitive market, they offer little guidance as to the economic benefits generated. An alternative method for assessing economic feasibility is to consider the industrial estates and the enterprises occupying them as a joint project. Data provided by the consulting team permit a rough approximation of the financial rate of return on total investment in each industrial site. The analysis assumed that (a) the investment in all plant, equipment, and inventories occurred in 1976, (b) firms only broke even in 1977, the first year of operation, (c) operations in 1978 are typical of what can be expected over the next fourteen years (the life of all capital being fifteen years), and (d) there will be no residual value in plant or equipment at the end of the fifteenth year. Based on these assumptions, the financial rate of return on total investment would be about 35%. Although the project team is dubious about the accuracy of the data, substantial reductions in the benefits and/or the use of less favorable assumptions would still generate acceptable rates of return.

Consolidated Data for 26 Firms in Five Countries

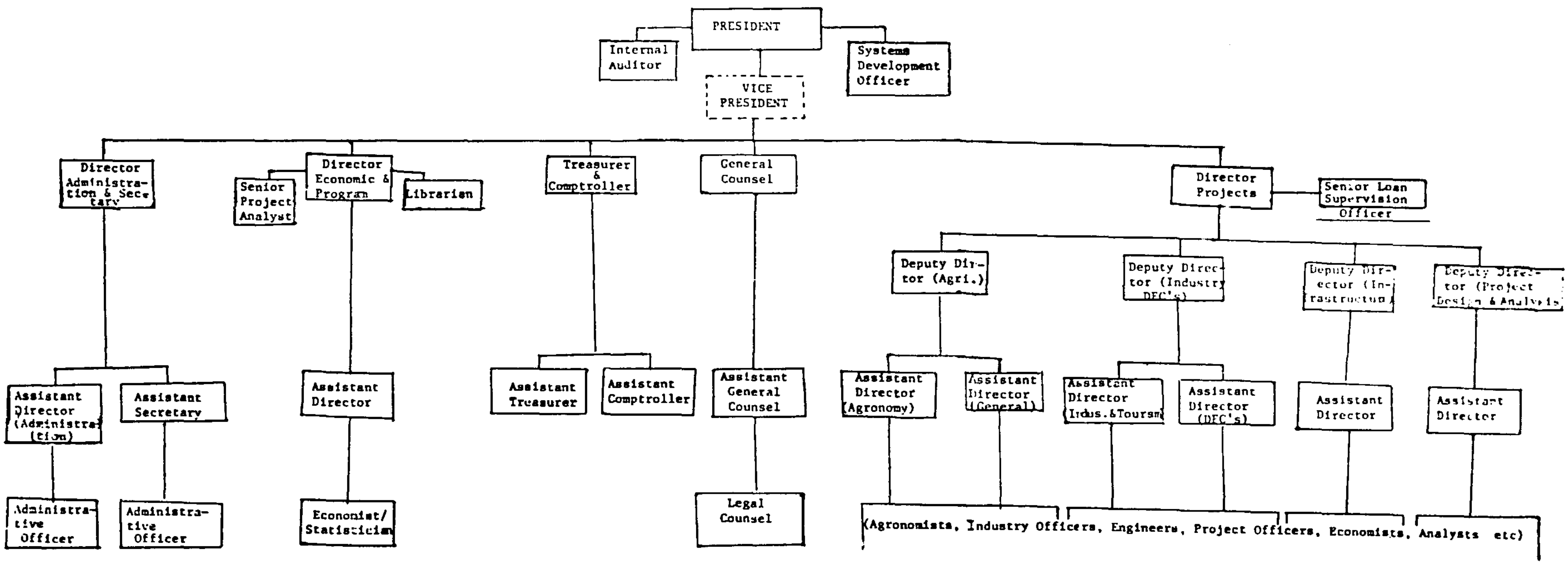
In millions of US$

Sales		$15.5
Export sales		$13.3
Employment:	2,006	
Production workers	1,743	
Supervision	146	
Management (incl. clerical)	129	
Payroll		$ 3.0
Rent		$ .3
Other local costs		$ .5
Total local costs		$ 3.8
Imports in goods sold		$ 5.0
Foreign exchange (earnings & savings)		$10.5
Direct contribution to GDP		$10.0
Investment in machinery, equipment		$ 6.5
Average inventories		$ 2.5
Cost of occupied buildings		$ 4.4

CARIBBEAN DEVELOPMENT BANK

PROPOSED DEPARTMENTAL ORGANIZATION

(Professional Staff)



Bridgetown
Barbados
March 1, 1979

TO THE BOARD OF GOVERNORS
CARIBBEAN DEVELOPMENT BANK
Wildey
St. Michael
Barbados

We have examined the financial statements of the Ordinary Capital Resources of the Caribbean Development Bank as at December 31, 1978, and for the year then ended as set out on pages 2 to 16. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements examined by us present fairly the financial position of the Ordinary Capital Resources of the Caribbean Development Bank as at December 31, 1978, and the results of its operations and the changes in its financial position for the year then ended.

Price Waterhouse & Co

ORDINARY CAPITAL RESOURCES
BALANCE SHEET
December 31, 1978 and 1977
Expressed in thousands of United States dollars - Note A

	1978		1977
ASSETS			
CASH IN BANKS AND OTHER DEPOSITORIES		4,726	2,254
INVESTMENTS - Note B			
Obligations issued or guaranteed by governments	547		13,272
Other securities	3,733		2,222
Certificates of deposit and other time deposits	22,011		5,761
		26,291	21,255
LOANS (Schedule 1)	33,935		35,672
Less undisbursed balance	11,938		12,397
		21,997	23,275
SECONDARY MORTGAGE SCHEME - Note C			
Mortgages purchased	1,227		1,388
Less principal repayments	150		127
		1,077	1,261
RECEIVABLE FROM MEMBERS			
Non-negotiable demand notes (Schedule 2) - Note D	1,373		3,296
Amount required to maintain value of currency holdings - Note E	4,927		1,722
		6,300	5,018
RECEIVABLE - OTHER			
Accounts receivable including inter-fund receivables	1,144		1,186
Accrued income on investments	834		597
Accrued interest on loans	268		232
		2,246	2,015
LAND AND BUILDINGS, at cost less depreciation - $19 (1977 - $15)		105	109
SPECIAL RESERVE ASSETS - Note F		651	423
		$ 63,393	$ 55,610

		1978	1977
LIABILITIES, CAPITAL AND RESERVES			
LIABILITIES			
Accounts payable including inter-fund payables		251	66
Accrued charges on borrowings		285	184
Borrowings - Note G	18,728		13,944
Less unamortised discount	171		-
		18,557	13,944
		19,093	14,194
CAPITAL AND RESERVES			
Capital stock (Schedule 2) - Note H			
Authorised capital - 38,400 shares			
Subscribed capital - 31,027 (1977 - 31,027) shares	187,147		187,147
Less callable capital - 25,357 (1977 - 25,357) shares	152,947		152,947
Paid-up capital - 5,670 (1977 - 5,670) shares	34,200		34,200
Less subscriptions not yet matured	459		1,122
Subscriptions matured	33,741		33,078
Additional subscriptions matured	1,665		1,375
	35,406		34,453
Ordinary reserves - Note	6,540		4,266
Net income for the year ended December 31, 1978 - Note J	1,703		2,274
Special reserve - Note F	651		423
		44,300	41,416
		$ 63,393	$ 55,610

William G. Demas

WILLIAM G. DEMAS
President

Jagdeesh Siewrattan

JAGDEESH SIEWRATTAN
Treasurer

ORDINARY CAPITAL RESOURCES
STATEMENT OF INCOME AND EXPENSES
For the years ended December 31, 1978 and 1977
Expressed in thousands of United States dollars - Note A

	1978	1977
INCOME		
From loans -		
Interest and commitment fees	1,621	1,313
Commissions and guarantee fees	228	189
From investments - Note B	1,723	1,955
From secondary mortgages	129	84
From exchange	-	259
From other sources	84	10
GROSS INCOME	3,785	3,810
EXPENSES		
Administrative expenses (i)	197	440
Charges on borrowings	1,292	907
Loss on exchange	365	-
TOTAL EXPENSES	1,854	1,347
NET INCOME BEFORE RESERVE APPROPRIATION	1,931	2,463
Less commissions and guarantee fees appropriated to Special Reserve - Note F	228	189
NET INCOME - Note J	$ 1,703	$ 2,274

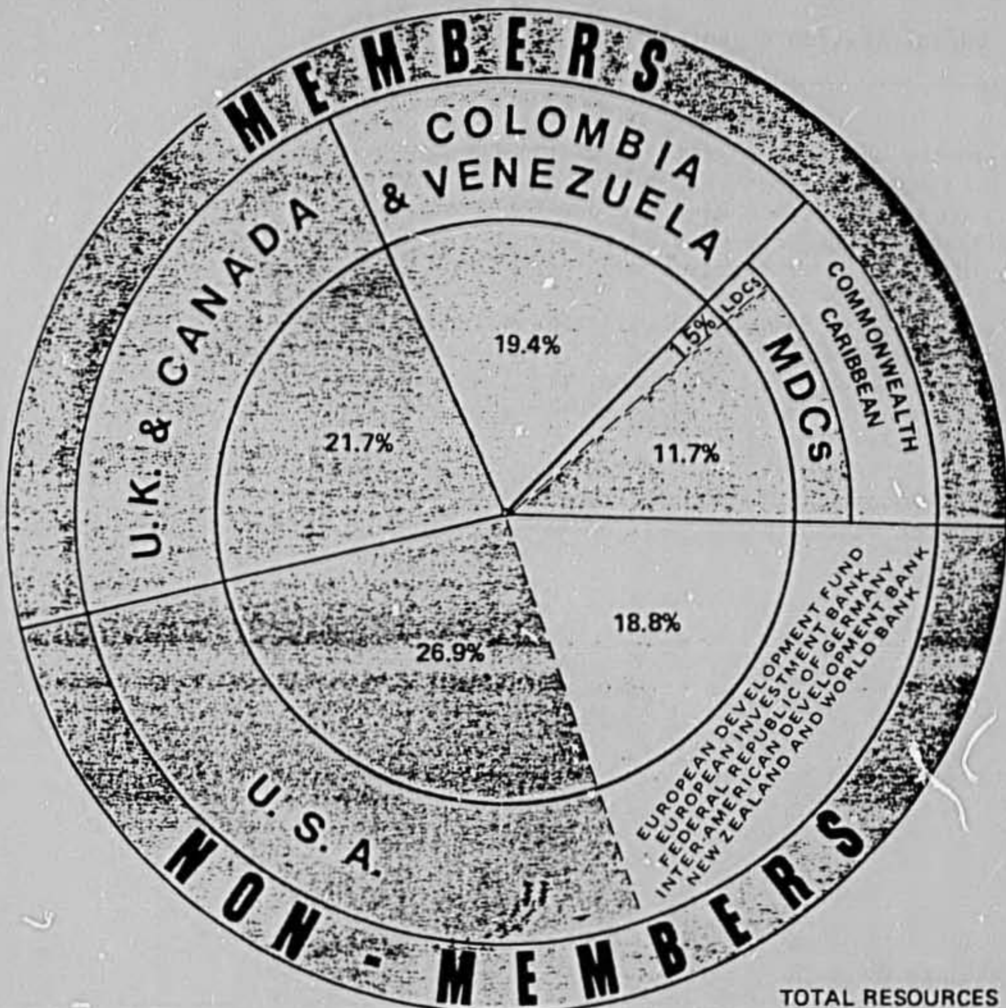
(i) Administrative expenses are shown net of expenses allocated to Special Funds Resources of $1,540 (1977 - $1,300) and of technical assistance contributions received of $226 (1977 - $88).

ORDINARY CAPITAL RESOURCES
STATEMENT OF CHANGES IN FINANCIAL POSITION
For the years ended December 31, 1978 and 1977
Expressed in thousands of United States dollars - Note A

	1978	1977
FUNDS PROVIDED		
Operations		
Net income	1,703	2,274
Add/(deduct) items not requiring or providing cash		
Accruals of income on investments, loans and demand notes	(273)	(284)
Accruals of charges on borrowings	101	39
Depreciation	4	4
Cash provided by operations	1,535	2,033
Principal repayments to the Bank on loans and mortgages	1,935	245
Borrowings	4,613	3,435
Capital subscriptions	953	953
Other	227	-
TOTAL FUNDS PROVIDED	9,263	6,666
FUNDS USED		
Receivable from members	1,282	(3,627)
Disbursements on loans	2,053	7,616
Increase/(decrease) in loans resulting from exchange rates fluctuations	(1,419)	126
Purchase of mortgages	237	298
(Decrease) in mortgages resulting from exchange rates fluctuations	(398)	-
Other	-	703
TOTAL FUNDS USED	1,755	5,116
INCREASE IN CASH AND INVESTMENTS	$ 7,508	$ 1,550

TOTAL RESOURCES
BY CONTRIBUTORS
AS AT DECEMBER 31, 1978

CDB's success in mobilizing external financial resources to develop the economies of the Commonwealth Caribbean Countries.



TOTAL RESOURCES
US$252.6 MILLION [(a)]

[(a)] Includes Capital subscription, loans and grants but excludes Reserves of US$6.5m.

MEMORANDUM

TO: Staff, Projects Department

FROM: Director, Projects Department DATE: January 8, 1979

SUBJECT: Project Administration Organisation

In keeping with the aims and objectives of the recent reorganisation of the Bank, the Projects Department has been looking in depth at its internal organisation in order to evolve and develop administrative systems which would optimise our output and working environment. The attached document outlines in broad terms the system which we hope to implement.

This paper is general in nature and will be developed in detail for ultimate inclusion in the Bank's Operations and Procedures Manual. Within the Projects Department we are now working on detailed aspects of the system which will be issued as operational memoranda from time to time as they are agreed upon and completed.

Please feel free to discuss any matter or question you might have, arising out of the paper with the Deputy Directors or myself.

Lewis G. Campbell

Lewis G. Campbell

Attach.
LGC/ms

PROJECTS DEPARTMENT

PROJECT ADMINISTRATION ORGANISATION

1. Introduction

1.01 As a result of the Bank-wide reorganisation which consolidated the Bank's work in project preparation, analysis and supervision (para. 4.10 - CDB Organisation Structure), bringing together all project staff (including analysts) under a unified direction in order to achieve better coordination and planning and the effective utilisation of all staff (para. 5.02) the need to develop a management organisation for the Projects Department became evident.

1.02 This paper outlines the general structure of the proposed management system and will be used to guide further detailed analysis and design of the various facets of the system.

1.03 The system being proposed is essentially a matrix form of organisation which aims to clearly establish responsibilities and relationships, recognising the need to differentiate between project relationships and personnel relationships.

1.04 It is designed around a management-by-objectives approach, which will be motivational in the sense of receiving a commitment by individuals and managers to achieving agreed measurable objectives. The system should eventually develop the following characteristics:

(i) Organisational goals with specified objective measures of performance.

(ii) Discussion and agreement between managers and subordinates about subordinates' goals and their consistency with organisational goals.

(iii) Joint review towards achievement of the agreed predetermined goals.

2. Objectives of the Proposed System

2.01 The objectives are as follows:

(i) To place responsibility for administering the project cycle firmly at the level of project leader.

(ii) To recognise the different skills and responsibilities in the project management system.

- project leader	-	sectoral expertise general development focus management skills
- specialist support	-	technical expertise
- project supervisor	-	management skills technical expertise

(iii) To clearly identify and specify the various levels of responsibility and the relationships between staff both horizontally and vertically.

(iv) The development and training of broad based development oriented project staff.

(v) To set up effective mechanisms for monitoring and quality control at all stages of the project cycle.

(vi) The efficient use of the wide range of skills and talents amongst project staff and to offer the opportunity for achievement, self-fulfilment and development.

(vii) To extend the opportunity for a wide range of formal and informal working relationships.

3. General Characteristics of the System

3.01 The management system will be structured along a matrix configuration in order to cope with the dynamic conditions of the Bank to remove bottlenecks in project cycle and staff relationships and to facilitate the smooth and efficient running of the Department. Assignment of tasks will be designed to allow officers to perform these functions in which they are most suitable and effective, in keeping with the efficient utilisation of the manpower resources and expertise in the Department.

3.02 Performance appraisal will be based on agreed criteria to determine the degree of attainment of specified goals within the overall objectives of the Bank.

3.03 Project staff will be in the Projects Department under the Director grouped by sectors of operation and specialist skills. The management system will be structured principally around projects with Deputy Directors (DDs) responsible for general direction and other matters within their sector. Each project would be under the direct responsibility of a project coordinator (leader) who would be supported by specialist inputs where necessary. It would be the responsibility of the leader in consultation with the respective Assistant Director (AD) to identify these specialist inputs and to manage them effectively.

3.04 A leader might have another officer assigned to the project who could provide complementary back-up and continuity. This would also provide useful orientation for new staff.

3.05 Each Assistant Director will be allocated responsibility for a portfolio of projects and will report to a Deputy Director, who will be responsible for two or three protfolios. A project leader will be directly responsible for that project to the AD in whose portfolio the project falls and may therefore relate to more than one AD and DD at any one period of time. Project leaders will not be chosen only on the basis of sectoral or technical expertise, but also because of an interest in and ability to manage projects and coordinate the work of others.

3.06 The work-load and responsibilities of project staff will fall under the following categories:

(i) Project leadership - which will entail a management skill, a broad developmental approach and a working knowledge of the sector in which the project falls.

(ii) Specialist support and inputs - which will require a high degree of technical knowledge and experience in the sector and the specific detail aspects of the project e.g., agronomy, engineering, marketing, financial analysis, etc.

(iii) Project supervision - which will entail a working knowledge of the sector in which the project falls and an understanding of project implementation procedures, e.g. procurement, consultants, disbursements, contracts, etc.

(iv) Other support functions, e.g. Technical Information Unit, Project Design, Technical Assistance, Sector Information, etc.

4. Levels of Responsibility

4.01 Project Leaders will report on a project-by-project basis directly to the AD within whose portfolio of projects his assignment falls, or to a DD where the assignment does not fall within the portfolio of an AD.

4.02 It is expected that the relationship between Project Leader and other project team members will feature a high degree of cooperation and consultation at a professional level. The Project Leader will, however, be ultimately responsible for managing the project cycle and will be expected to alert the appropriate AD regarding significant departures from individual performance targets, and at the end of the assignment, will report on the actual achievements of the team and its individual members as compared with scheduled targets.

4.03 Assistant Directors (ADs) will not have administrative responsibility for a pre-determined group of officers but would supervise project leaders on a project-by-project basis. Each AD will be responsible for a portfolio of projects, grouped according to technical/sectoral categories.

4.04 The AD will be primarily responsible for -

(a) the technical quality of the projects under him;

(b) supervising the programming and monitoring of the project cycle, including the programming of field visits and issuing terms of reference for field missions;

(c) developing with the Economics and Programming Department the pipeline of projects in his sector; and

(d) the supervision of the projects under him.

4.05 ADs will also be expected to serve as project leaders and provide specific technical support for some projects.

4.06 ADs in consultation with their DDs will be expected to draw up a strategy for achieving the agreed objectives in their sectors. Lending targets and guidelines for each sector by country will be drawn up with the Economics and Programming Department forming the basis of the strategy for projects through to investment.

4.07 Each AD will be accountable to the appropriate divisional DD on the performance of the work programme under this portfolio and may recommend to the respective DD, corrective action regarding the composition or performance of a project team.

4.08 ADs will supervise the work of project leaders and will appraise their performance at the end of their respective assignment.

4.09 Deputy Directors (DDs) will be responsible for two or more portfolios, providing direction in sectoral and Bank policy, and reviewing the programming and monitoring of the project cycle. The DDs will also advise the Director on the allocation of responsibilities in the Department. DDs may be assigned by the Director other specific responsibilities within their competence, including representing the Director on Bank Committees.

4.10 Each DD would report to the Director of Projects and will participate with the Director in the general administration of the Department and will have specific responsibilities for such administrative tasks as approving/authorising travel requests, expense claims, overseas telephone calls, cables and telex messages, document reproduction, vacation leave, etc. in connection with projects in their portfolios.

4.11 The DD shall direct the work of the ADs in his division and appraise their performance. The DD shall also direct and appraise Project Leaders and other staff whose assignments fall within one of the DD's portfolios but who are not supervised by an AD either because the scale of operations does not warrant the appointment of another AD or where the nature of the tasks warrants the direct supervision of the DD.

4.12 The Director of Projects (DP) will provide direction and guidance for the Department, directing and coordinating the work of the DDs and appraising their performance and will be ultimately responsible for all staff disciplinary matters.

4.13 The DP will consult with his DDs and the AD (Loan Supervision)who together with him will comprise the Projects Management Committee in:

- the allocation of projects to appropriate portfolios;

- the allocation of responsibility for project leadership;

- the allocation of specialist support staff to assist project leaders;

- clearing all project documentation (e.g. project profiles, issues papers, appraisal reports) which leave the Department;

- resolving project-related issues which cannot be settled at a lower level; and

- recommendation and decisions on personnel and staff matters including personnel rewards and disciplinary matters.

4.14 Assistant Directors, Project Leaders and other project staff would be co-opted to the Projects Management Committee when specific matters under their jurisdiction are being considered. The Committee would review the status of projects (at all stages of the project cycle) particularly where there are problems.

4.15 The Projects Management Committee would be serviced by the Project Design and Analysis Division.

4.16 The DP will advise the President on all matters concerning the Projects Department. He will have responsibility for serving on the Management Committee, Loans Committee, Appointments Committee, Investment Committee and Loans Supervision Committee. He will be the direct link between the Projects Department and the Service Departments of the Bank. In particular, he will be responsible for ensuring the proper liaison between personnel of the Projects Department and other departments, particularly in administration where there is need for integrated action on matters involving those departments.

5. <u>The Project Cycle</u>

5.01 The project cycle has the following stages:

(1) Identification.

(2) Pre-appraisal or Preparation.

(3) Appraisal.

(4) Supervision or Implementation.

5.02 Identification: The identification of projects will continue to take place as a result of the contacts being developed by projects staff in the countries. Projects so identified will be reviewed by both the Projects and the Economics Departments and where appropriate, included in the country programme. Besides this, the Economics Department, with assistance from the Projects Department, will take programming missions to the countries where potential projects would be examined and a lending programme developed for the country. Once a project has been identified and agreed to by Management through an issues paper, it will be included in the lending programme and the Projects Department will take over responsibility for it, including notification to the Board of Directors. At this stage, the Projects Management Committee will allocate a leader for the project and place it in the appropriate portfolio.

5.03 Project Preparation: The project leader will review all documentation relevant to the project and where necessary may visit the country for discussions on the projects. Upon return from the visit, the leader would be required to prepare a project profile which would broadly cover the following:

(1) Background information.

(2) Project formulation and preparation.

- Origin and status of preparation
- Objectives
- Description and designs
- Projects issues and recommendations
- Critical path for project preparation
- Project organisation and implementation

(3) Bank Processing.

- Coordination and manpower planning
- Status of dialogue with Borrower and Government

5.04 The profile will follow a simple, standardised format and is seen not as an added piece of work, but rather a tool to improve the efficiency of the project process.

5.05 Project profiles will be reviewed by the Projects Management Committee, forming the basis for monitoring the project cycle, and will be updated periodically. In addition, these profiles will be circulated to all appropriate departments for their comments. In particular, the comments of the Senior Project Analyst in the Economics and Programming Department should be sought at a very early stage and he will be available for consultation at all stages of the project cycle.

5.06 Appraisal: When a project leader is satisfied that a project is adequately prepared and ready for appraisal, he updates the project profile and submits it to the Projects Management Committee with a recommendation to start the appraisal process. At this stage, the profile will include an appraisal blueprint covering requirements of specific manpower expertise which will comprise the appraisal team and a time-table for standard events in the appraisal process up to Board presentation. This team will include the country legal officer who will be available for consultation at all stages of the project cycle. This part of the cycle will be monitored by the Projects Management Committee for all projects under appraisal. This procedure will ensure that project appraisal will be more definitive and expeditious.

5.07 Information on the country and sectoral economic situation and public finance will be supplied on a regular basis by the Economics and Programming Department.

5.08 A review process for appraisal reports will be instituted at the following levels:

(1) Divisional.

(2) Departmental (Projects Management Committee).

(3) Inter-departmental Review.

(4) Bank Management (Loans Committee).

Besides this, certain projects will also be subject to inter-divisional review in the Projects Department. The divisional review will be the responsibility of the DD.

5.09 The Project Design and Analysis Division will be responsible for servicing the departmental and inter-departmental reviews and the Loans Committee. It is hoped that close liaison between all divisions and departments in the Bank will, in fact, make these reviews a formal event in what will be a continuous informal review process. In particular, it is envisaged that a close working relationship be developed between the Senior Project Analyst in the Economics and Programming Department and the project staff from as early as possible in the project cycle.

5.10 Supervision: The Loan Supervision Committee (LSC) will comprise the Vice President (Chairman), Directors, Assistant Director (Loan Supervision) and Deputy Directors and will be serviced by the Loan Supervision Unit (LSU). Projects under supervision will be allocated to project officers taking into account sectoral and geographic factors. In some cases where it is felt to be desirable, the project leaders would retain responsibility for supervision. Supervision reports would be directed to the DD through the AD for review, and problem projects (i.e. not meeting certain performance criteria) would be subject to review by the Projects Management Committee before consideration by the Loans Supervision Committee. Where the supervising officer is not the officer who lead the preparation and appraisal of the project, supervision reports should, where considered necessary by the AD, be reviewed by the officer who led preparation and appraisal.

5.11 The LSU will be required to work closely with project officers in the performance of its responsibilities and to contribute to project preparation and appraisal where its experience in supervision is appropriate.

5.12 Post Implementation Review: Project performance reviews will be institutionalised and will be the responsibility of the Economics and Programming Department.

6. The Project Programme or Blueprint

6.01 At the end of each stage of the project cycle, a programme for the next stage must be drawn up as a prerequisite for moving to that stage. These programmes or blueprints will cover -

(a) The activities and issues to be addressed during the next stage and outstanding work to be accomplished.

(b) A time-table with activities, events, inputs and outputs.

(c) Manpower requirements in terms of timing and expertise.

6.02 At the end of identification, a blueprint for preparation will be an integral part of the project profile. At the end of preparation the updated profile will have a blueprint for appraisal. Appraisal documentation should include a blueprint (i.e. an annex) for supervision.

6.03 These programmes will be operational tools which will be the responsibility of the project leader, in consultation with the appropriate AD, to prepare and revise whenever necessary. Standardised formats will be developed to facilitate their preparation. These programmes will be initially approved and periodically reviewed by the Projects Management Committee.

6.04 These programmes together with the outputs from the Management Information System will become an institutionalised system of project control, which will be used by the Projects Management Committee and all projects staff for manpower planning, coordination of field missions and monitoring and control of the project cycle.

7. Other Responsibilities of the Projects Department

7.01 Besides its directly related project functions, the Department will also be responsible for other support activities related to its project work. The principal ones at present are the Technology Information Unit (TIU), a Technology Research Fund (TRF) and project related Technical Assistance (TA).

7.02 The TIU will be the focal point within the Bank for locating, gathering, evaluating, selecting, storing and disseminating information on technology relevant to all sectors of the Bank's operation. The TIU will absorb and build upon the informal equipment and technology operations which were set up and run within the Industry Division.

7.03 The TRF will be a resource available for funding small research and pilot projects to adapt, define and/or demonstrate specific technologies appropriate to the needs of the region.

7.04 TA operations will in future be coordinated centrally with the responsibility for technical inputs placed with the relevant specialists.

7.05 Each of these functions are seen as discrete projects and will be placed under the direct responsibility of a project officer who will be the coordinator, supervised by an AD or DD as the case may be.

January 8, 1979

CDB's EXPERIENCE IN THE INDUSTRIAL SECTOR

Since 1971 the bank has maintained its presence in Industrial Development Activities by three industrial programs in its countries.

- Loans to small industrialists
- Loans to governments for industrial estates
- Direct industrial loans.

The loans to small entrepreneur/businessmen, are financed by extending lines of credit to the Development Finance Corporations (or similar government agencies) in 10 less developed member territories. Sub-loans (150) of this type through 1978 have totalled approximately $1.3 million, and created about 435 jobs. Each application is reviewed by one of the Bank's Small Industry Loans Officer (SILO) who visits the workshop to help the applicant plan his development program. A loan cannot be made unless the officer approves the program[1/]. The service which the Bank is providing to small industry has proved to be of value by this sector, judging by the continued extensive demands made on staff time.

Loans for the construction of industrial estates have been approved in eight countries. At the end of 1978, the CDB's program had led to the construction of some 200,000 sq.ft. of factory space in the LDC's. The total loans approved for this program as of December 1978 amounted to $11,024,000.

Summary of CDB Industrial Sector Programs 1970-78 (US $000)

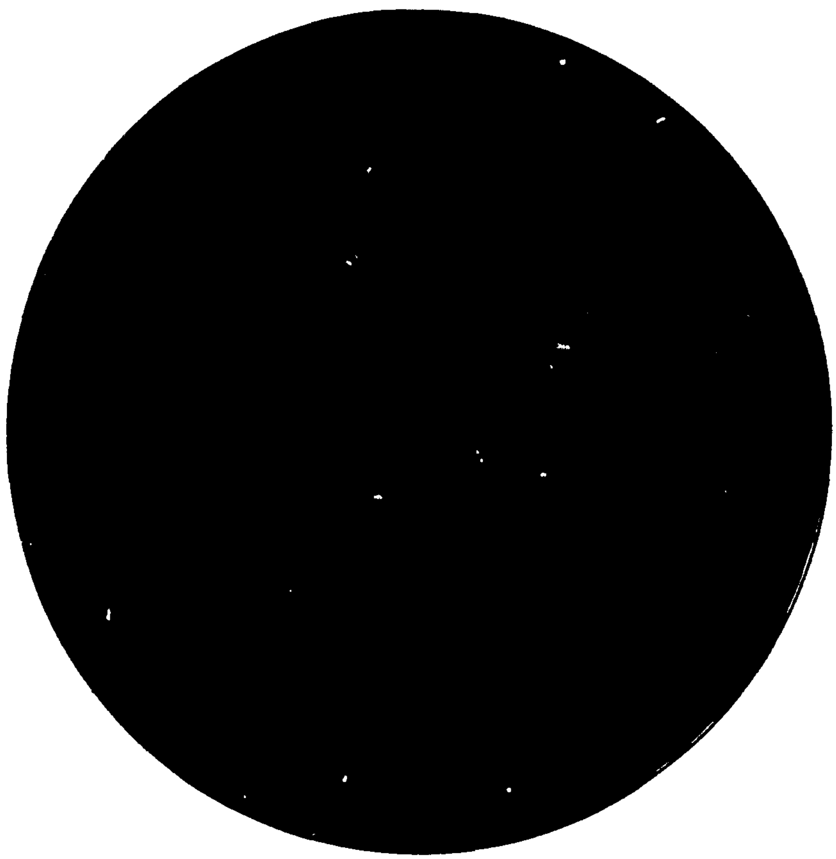
	FUNDS			
	OCR	SDF	Other	Total
Through National Lending Institutions	5,413	6,523	2,882	14,818
Industrial Credit	5,413	2,279	2,725	10,417
Small Industry Credit (DFC's)	-	4,244	157	4,401
Direct Lending	4,194	8,603	5,369	18,166
Sugar Factory	-	1,500	1,500	3,000
Footwear	-	-	-	413
Plactic Manufacture	-	-	446	446
Industrial Estates	4,194	6,733	97	11,024
CDF Projects	-	-	3,000	3,000
Other	-	215	68	283
Totals	9,607	15,126	8,251	32,984

Source: Caribbean Development Bank Annual Report 1978; See Tables IIB and IID.

1/ Except to this rule is the CDB's qualification of Belize which permits direct DFC sub-loan approvals up to $25,000. This qualification has been made based upon the administrative and positive financial conditions of the Belize DFC.

The bank made its first two direct loans for manufacturing projects during 1976. Since then 16 additional projects have been identified and authorized for direct lending. These projects total over $7 million. One of these projects was made to a private sector corporation in an MDC to expand its manufacturing facilities and provide for a three shift operation. As of December 1978, almost $33 million or 18.5% of the Banks total financing was available for industrial lending.

DISTRIBUTION OF TOTAL FINANCING (NET)
BY SECTOR
Loans, Contingent Loans and Equity
1970 - 78



TOTAL US$180.1 MILLION

As a result of recent organizational changes within CDB the bank is demonstrating its desire and ability to expand its leadership and financial role in the Caribbean Industrial sector. The new organization provides for a seperation of the project and administrative staffs of the bank with emphasis of technical assistance and information transfer. With the reorganization the industrial staffs will have greater responsibility for project implementation while eliminating some inefficiences caused by the administrative work load.

Financial Intermediaries

The following is a summary of the problems facing financial intermediates in both the LDC's and MDC's as developed by G. Alter.

"Special Problems of LDCs"

In the LDCs, government financial intermediaries servicing the industrial sector are in extreme financial difficulties, as documented in the report by Business Analysis and Systems Corporation (AID Contract LAC-C-1260). Given the small size of the market for term loans by the industrial sector and the high cost of their operations in each of the small countries of the Caribbean, the report sees no way for these DFCs to become financially sound even if they undergo widespread reforms. In fact, many of the required reforms would result in increased costs, hopefully leading to more effective operations and reducing the risk of default on loans. But even so, the analysis leads inexorably to the conclusion that the small island economies cannot afford the direct financial losses that evan a relatively efficient small DFC would sustain so long as its scope is limited to term loans.

The BASIC report concludes that the DFCs themselves or the larger government institutions into which they would be incorporated should expand the scope of their operations to include commercial banking functions, including the acceptance of deposits and the extension of short term credit. For these institutions, whether in their present form or in their expanded form, the CDB would have to evaluate carefully the rehabilitation programs proposed by the government shareholders in the DFCs. If satisfied by the rehabilitation program the CDB could qualify the institution for participation.

In all of the LDCs covered in the BASIC study, government contributions to the DFCs equity would have to be increased and government cash contributions placed on a regular basis consistent with cash flow requirements. The poor fiscal position of these governments is well known. The period of grace on amortization payments owed to the CDB by the DFCs is beginning to terminate. It would be prudent, both for the CDB and for the government concerned, to minimize the risk of further financial loss in DFC lending to private enterprise.

In the LDCs the private banks are able to serve borrowers in the second category at a much lower cost. They have a cadre of experienced staff which has yet to be created in the DFCs. The incremental costs of expanding their activities in this field will be much lower than if the DFCs undertake the task. Branch offices exist for administering the loans and many common facilities can be shared.

In the LDCs the governments should be encouraged to continue to confine the DFCs to the group of borrowers described in the third category. The total volume of operations for this group is low, and sub-loan approvals in 1977-78 were actually lower than in 73-74 in constant prices. While the cost of operating with the borrowers is high and will involve a negative spread, the total volume of costs, including allowances for bad debts, is probably within the financial capacity of governments, taking into account the low cost of funds from the CDB, the availability of external grants for financing project apprasial and technical assistance activities. The financial problems of the DFCs in the LDCs arise to a large extent out of other non-industrial programs with which they have been saddled.

Concentrating the attention of the government-owned DFCs on the smallest, least experience business enterprises would meet a high priority need incapable of being met by the private banking system.

In Jamaica, the government owned developement bank JDB is facing serious financial and institutional problems. The CDB is already assisting JDB in overcoming these problems. JDB has been an important source of loans to enterprises.

Pending the solution of JDB's financial and institutional problems, it has already been determined by the Jamaican government to pursue the course recommended here.

The CDB will have to decide, when its work with JDB has advanced further and after consultation with the Jamaican Government, whether the JDB should be given access to the proposed Facility. In the meantime, the World Bank has provided the commercial banks and SEDCO with the external resources which are believed to be required. If the CDB establishes the new facility supplementary resources would be available if required. CDB could easily modify its mode of operation and channel resource to the commercial banks and SEDCO through the government institutions created to serve under the World Bank loan.

Barbados, the Barbados Central Bank has developed a new credit guarantee scheme designed to give further encouragement to the commercial banks to provide loans to small enterprises in virtually all business sector, including manufacturing. The guarantee program does not apply to institutions where the government is already covering credit risks. Any two of the following three criteria must be met for enterprises to qualify:

(1) Total capital less than BDS $100,000.

(2) Annual sales less than BDS $500,000.

(3) Number of employees less than 36 persons.

It can be assumed that most small enterprises qualifying for coverage under the program would also qualify under the tests adopted for the new Facility. It would be very desirable for the CDB to have further discussions with the Barbados authorities concerning the participation of the commercial banks in the new facility. Their participation would greatly enhance the practicability of the commercial banks operating in the Eastern Caribbean and Guyana setting up a strong project unit in their District Offices located in Barbados.

In addition, the Barbados Development Bank would most likely qualify for access to the new facility if the Barbados Government would factor such a course. The signs of recovery in the Barbados economy have encouraged the BDB to draw up quite an ambitious program. BDB expects to obtain the foreign exchange component of this program (BDS $21 million) from external agencies, including the CDB.

While the BDB extends loans to small enterprises it has recently stated that in the light of the experience gained concerning the constraints in financing this type of lending "funds for lending to this sector must be additional to regular lending or be established as a special program". The CDB's new facility could well complement domestic arrangements for serving small scale enterprises via the BDB, as well as via the commercial bank. BDB would be particularly appropriate for dealing with the third category enterprises.

It should be noted that BDB has recently strengthened its financial position, cutting its deficit by over one-half. Its break-even portfolio size, which is estimated a just over BDS $16 million, is to be reached during the fiscal year 1978-79.

Guyana: The unsatisfied demand for medium and long-term credit is substantial, not because of a domestic liquidity squeeze or a private investment boom but because for the first time in many years the private sector is gaining some confidence in the future.

Some long-deferred projects are ready to go forward. Medium term credit channeled through the private commercial banks under government auspices would reinforce the initial steps taken by the government to restore confidence of the private sector.

Some of the commercial banks, despite their present liquidity, would welcome an opportunity to participate in a program for small scale enterprises which would provide foreign exchange to their clients for imported equipment and imported components of intermediate products and raw materials.

Advantage could be taken in Guyana, as in Jamaica, of the country's exchange shorgage and import licensing stringency, to expand the scope of commercial bank involvement with small scale enterprises to include medium term credit on appropriate terms.

In Guyana, a small industries corporation, which has serious financial and institutional problems, has been abolished by the government and its functions have been taken over by the Guyana Coorporative Agricultural and Industrial Development Bank. The management of the newly expanded institution is satisfied that a large demand for creidt exists, but it was not possible to obtain a breakdown by size of loan or asset size of borrower.

In early March the IDB is sending a mission to Guyana to examine this new institution, which formerly did not operate in the industrial field. It would be desirable for the IDB mission to be aware of the CDB's special interest in assessing the new institution as a potential customer of the new facility for small scale enterprises."

In February 1979 the government released a "Guyana Investment Code" which is intended to satisfy demands by the business community for an official policy statement on private investment. The code continues to maintain the principle of state control of the economy, but recognizes that growth requires that all three sectors of the economy (public, private and cooperative) must be stimulated. In general, the public sector will direct its energy to fundamental and "strategic" activities, leaving smaller and medium size undertakings to private initiative. Preferred areas are demarcated for private investment, although not exhaustively. Permissible ownership patterns are defined. "Alternative" conditions governing the activities of investors are described. All enterprises must operate within regulatory framework so as to promote development goals. In theory foreign investors will be able to undertake projects without local participation. However, private enterprises with foreign equity will be subject to a system of licensing. Embassy believes that the code is a positive development which goes beyond prior government pronouncements on private and for foreign investment, though just how much an "opening to the right" the code represents will depend on how it is interpreted and implemented.

During the project team's visit to Guyana a determination was made that the commercial banks should be made eligible to receive the funds. First, the Guyana Cooperative Agricultural and Industrial Development Bank has received, or is scheduled to receive, significant amounts of funds from the EEC, AID, (ag. credit) and the CDB. Second, at least some of the local commercial banks are interested in participating in the program, particularly in their headquarters' offices in Barbados would encourage such participation.

The three banks showed various degrees of interest. One bank (CM) felt it could use funds. Another bank (RB) said there is some interest in medium and long-term lending. This same bank pointed out, however, that import restrictions, etc. have cut the demand for short-term credit so much that it was not able to reach the 1979 private credit ceiling (a 5% increase over 1978). The third bank (B) saw possibilities but pointed out that training of staff would be needed as well as positive policy guidelines from its regional headquarters.

The ceiling on commercial bank lending to the private sector does not apply to commercial loans to public corporations.

The Government's restrictions on private wholesalers and retailers is tending to squeeze persons out of the trading sector and a number of these individuals are exploring the possibility of going into manufacturing.

ANNEX VI - 7
1 - 7

PREPARED BY

BASIC

Business
Analysis
&
Systems
Information
Corporation

EMPLOYMENT GENERATION

THROUGH

INDUSTRY & COMMERCE

VOLUME III

Restructuring of

Development Finance Corporations

and

Establishment of Small

Industry Loan Fund

P.O. Box 147
Washington, Virginia 22747
(703) 675-3410

Contract AID Lac-C-1268

2. Viability Possibilities for Specific LDC's

It is clear from the foregoing performance data, that all the DFCs are presently vulnerable, and some without reasonable hope of being viable under any foreseeable circumstances. In every case, administrative costs alone would absorb the highest spread rates obtainable under SIC lending restrictions, and they would still be in a deficit position. In two instances at least, St. Kitts and Montserrat, market possibilities limit the attainment of portfolios sufficiently large to permit standard effective operation as independent entities. For example, Montserrat could, at optimum market performances, produce only about US $400,000 in sub-loans, vis-a-vis its present level of US $143,000. At a 6% spread, that DFC could produce net returns of only $24,000 -- hardly sufficient to maintain staff and plant, let alone provide for bad debts, which currently total US $28,000 and involve loans with a value of $92.6 thousand. Similarly, St. Kitts, which would attain a portfolio of sub-loans of about US $1.0 million vis-a-vis present holdings of US $369,000, has little possibility of generating sufficient income to offset its operating costs plus providing for the more than $168,000 in troubled loans.

It would seem prudent to place Montserrat DFC in some form of receiver-ship, suspend all new lending operations, and effect a transfer of the SIC, FIC, and AIC function to commercial banks. The extension of lending functions for Montserrat offers little possibility for increase in portfolio. The three commercial banks on that island have been able to generate only US $4.1 million in total loan portfolios. St. Kitts, however, has some maneuvering room for increasing its market.

The other DFCs might achieve viability were they not burdened by a high ratio of bad debt probabilities which would require years to work out of. With the exception of Belize, and possibly St. Lucia, Antigua, and Grenada, it is doubtful that their viability as independent DFCs can be attained. The positions of individual DFCs, and the strategies available to them, are discussed below:

Belize: The Belize DFC is a "mature" institution; that is, it has accumulated a portfolio large enough to meet all administrative costs postulated by both Models. However, it has, in the process of growth, accumulated a staff of 47 persons with an annual wage bill of US $116,000, and annual total administrative outlays are currently at US $211,000.

It is probable that those startlingly high numbers of employees are attributable in part to Technical Assistance Cadres working with small enterprises, in part to participation in other non-banking functions, and in part to the relatively large area served, which may necessitate the employment of extensive field staff. Nevertheless, a financial burden of that magnitude is the main determinant of its present marginality.

The "troublesome" loans on its books, which are approximately US $ 531,000, pose a threat of considerable dimension. The US$ 79,000 in arrears on principal and US $ 174,000 in interest are being offset in part by Government subvention and investment earnings on grant funds supplied by CIDA. Given maintenance of the present relative cost of lending by the Belize DFC, the institution will incur higher losses with successive increases in the portfolio.

Adaptation of the following suggestions would contribute to the attainment of viability and maintenance of orderly and rational growth.

(a) Reduction of administrative costs by at least 50%. This would reduce the cost of administration from 7.67 to 2.6% of portfolio, and provide approximately US $ 105,000 to build up badly needed reserves.

(b) Immediate initiation of assessment of these loans presently in arrears, and determination whether these are salvageable and the effect which the degree of salvageability would have on the position of the DFC; then institution of collection procedures.

(c) In the process of staff reduction, the institution of a personnel system with specific job descriptions, the selection and retention of the best persons, and the setting of new and higher wage rates and the setting up of training for these.

Should the need to serve widespread areas necessitate the maintenance of extensive staff, the DFC might consider connecting itself to a commercial bank. Thus, it could utilize an extensive network to provide a wider range of services, and strongly improve its financial position.

Commercial bank portfolios in Belize for Industry and Agriculture have been growing at the rate of over $3.5 million per year, and are presently at US $ 38.1 million. The portfolios for Distributive Trades now top US $ 36.4 million Similarly, total deposits of commercial banks have grown over US $ 3 million per year and now exceed US $ 6.0 million. The entry of a new commercial bank with a development focus would hardly cause undue injury to existing institutions, and would have the advantage of tapping local funds for development purposes.

St. Lucia:

The two DFCs in St. Lucia, the AIB and DB, together have portfolio holdings of US $983,000 and annual administrative costs of US $144,000. About US $47,000 of sub-loan principal is in arrears on sub-loans totalling US $376,000. The two DFCs registered net losses of US $182,000 on operation in 1976, and in subsequent years the situation has further deteriorated. Because of the poor record of the institutions, it has been proposed to amalgamate the two institutions with the Housing Development Bank. Enabling legislation is currently under consideration.

St. Lucian authorities have expressed the desire to form a Nationa Commercial Bank. The proposed merger of the three institutions presents the opportunities to do so. Each of the agencies being merged could provide the staffing of "windows", with new general management introduced to supervise all functions. The new institution should be chartered under the Companies Act, and thus be totally independent of the Government, even if the Government holds stock in the new institution.

It is doubtful if the new institution could acquire public confidence, saddled as it would be with the burdensome debt of the merger partners. The general view of the merging partners a "hand-out agencies" further handicaps the acquisition of confidence. This problem can be eliminated by isolating "troublesome debts" and transferring these to a government account. The institution would thus start up with a solid portfolio, and divorce itself from past lending practices. The Government, in accepting the portfolio of "troublesome debts", would do so in lieu of, or as a partial, subvention.

Commercial bank portfolios for Agriculture, Industry and the Distributive Trades have grown from US $6.3 million to US $14.9 million over the past five years, and deposits have been up from US $19.9 million to US $37.9 million. The new institution's participation in continued commercial bank growth would underpin its development role.

Other than bad debt concerns, administrative cost levels are the greatest drag on the DFCs. With operational functions shared under the proposed merger, it should be possible to reduce loan officer staff to no more than four persons; two each for Agriculture and Industry. Given present salary levels which average about US $2,500 for both agencies, it should be possible to reduce direct operating costs to less than US $50,000, while permitting substantial salary increases to retained personnel. Such reductions would enable the combined agencies to break even at present portfolio levels.

Antigua: The Antigua DFC, with a sub-loan portfolio of US $7[illegible],000; A staff of ten employees, and expenses approximating US $61,000 in administration; returned a deficit of US $23.4 thousand on operations in 1976; and loans totalling about $200,000 1/ are in arrears.

Administrative costs are the major impediment to improvement of the financial position of the agency. Exposure on troublesome debts further weakens the outlook for the DFC.

Assuming a potential market of US $3.5 million, it could achieve viability. However, the present pace toward attainment of that market level is such that the administration cost burden will severely impair achievement of viability under the assumption of either Model. These costs would have to be reduced by about 50% to permit the DFC to break even, before provision for bad debts. Unfortunately, exposure is now about 26% of the entire sub-loan portfolio. The viability of the institution would depend upon the salvageability of such loans.

It would appear that the Antigua DFC would at least be marginally viable over the next four or five years, if both administrative costs and troublesome loan efforts can be contained. However, the chances for self-financing of the operations would be greatly improved if it could be integrated into the Antigua and Barbuda National Commercial Bank.

Dominica: The Dominica DFC (DAID) has recently been taken over as a subsidiary of the National Commercial & Development Bank. It remains, however, a separate entity and does not fully share overheads with its parent. Its sub-loan portfolio is US $436,000; administrative costs are US $40,000; principal in arrears totals US $35.7 thousand; loans valued at US $336,000 are exposed; and it registered an operating loss of US $13,000 in 1977. Assuming a market potential of US $2.6 million, the DFC would be marginally viable as an independent entity. As an integrated unit of the NCDB, its chances of viability are substantially increased.

Should the NCDB continue the process of integration, substantial savings in administrative costs are possible. Of perhaps greater importance is the possibility of utilizing NCDB funds as a counterpart to FIC, SIC and AIC funds supplied by the CDB. The greater spread available through use of those funds, would make notable positive changes in the earnings of the DAID.

The new management of the DAID is of good quality, and the effects are evident from loan approvals, which grew from an annual average of twelve per year to ninety per year, in 1976. The staff is

1/ Estimates of CDB.

presently processing about sixty applications per month, with an approval rate of about 28%; about 50% are returned for further information and background material. The management credits Technical Assistance provided by the CDB for accelerating the administrative improvement which has taken place.

Grenada: Grenada has a sub-loan portfolio of US $411,000; an administrative overhead of US $34,000; a bad debt exposure of US $288,000; and registered a $4,000 loss in its 1977 operations.

The agency is, for practical purposes, moribund, and awaits high level discussions which will determine its future.

St. Vincent: The two DFCs together have sub-loans portfolios valued at US $622,000; are currently incurring administrative costs of US $71,000; have bad debt exposure of US $546,000; and registered a collective deficit of US $72,000 in 1976/1977. Recommendations for amalgamation of the two agencies have been agreed upon in principal. These, if carried out, would permit a large reduction in administrative overhead. Nevertheless, it is doubtful that such strengthening of the institutions would be sufficient for the attainment of viability. As in other cases, the pace of lending is unlikely to be sufficient for generation of income adequate to permit provision for bad debts. An extended period of constant deficits would be foreseen.

It is suggested, therefore, that the amalgamation process involve, also, the National Commercial Bank of St. Vincent, which has shown strong growth since its recent initiation. Absorption of a large portion of present administrative costs, and participation of the Commercial Bank in development lending through the DFC "windows", would add considerably to the profitability of sub-lending.

As in other cases, a commercial bank may absorb the DFC functions, the existence of a heavy exposure would be unacceptable. The Government could consider acceptance of the questionable debts.

St. Kitts: The St. Kitts DFC has a sub-loan portfolio of approximately US $369,000; is currently incurring administrative costs of US $22,000; has a bad debt exposure of US $22,000; and registered a deficit of US $14,000 in 1977. The market possibilities are too small to support a DFC under the assumptions of either Model. It is doubtful if administrative costs can be appreciably reduced.

Total loan portfolios of commercial banks in St. Kitts now total US $16.6 million, as compared to US $6.4 million in 1972; an average annual growth of US $1.7 million. During the period 1972-1977 total deposits grew to US $28.2 million from a low of

US $12.3; an annual average growth rate of US $2.5 million. The relatively brisk growth of commercial banking may offer the St. Kitts DFC a chance for viability, if it could participate as a commercial lender. Should this not be possible, the DFC functions would have to be absorbed by existing commercial banks.

ANNEX: VI -8
Consist of 13 pages

MEMORANDUM

To: Management Committee

From: DFC Officer

Date: October 31, 1977

Subject: DFCs in LDCs - Programme for Structural Reorganisation to Ensure their Viability

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At the time of the Bank's inception in 1970, none of the countries in the Leeward and Windward Group (classified as LDCs) including Belize had any Development Finance Corporations per se or other financial intermediaries geared to extend financial and technical assistance to development projects. A few of them which did exist in one or two countries were functioning purely as Loan Offices with restricted funds from Governments or through grants from the British Development Division. In this situation, the Bank soon realised its severe limitations in retailing financial, technical and supervisory support to small farmers and small business ventures scattered over eight countries grouped as LDCs. The position was rendered further difficult as the Bank's Charter enjoined on it to give priority to the special and urgent needs of LDCs.

Sustained efforts were therefore made in the initial stages to persuade Governments of LDCs to put through necessary legislation and establish Development Finance Corporations or banks to function as channels to make use of the Bank's long-term funds to promote development projects in agriculture, industry and tourism sectors. Though envisaged as legally autonomous institutions, they in fact functioned as executive arms of Government. Some of them had no capital structure, while in certain others, large areas of Government lands were transferred to them in lieu of capital funds with responsibilities for development.

The major characteristics of DFCs as observed during the study and thrown out by data provided in Appendix I are summarised below:

1. Most DFCs have not yet assumed the role of independent financial institutions. Governments in some cases continue to regard them as one of their departments and consequently borrowers have yet to develop business attitudes of the use of credit and its repayment.

2. There are a few cases where undue political interference continues in decision-making, loan-portfolio administration and in development of staff capabilities.

3. DFCs generally operate in a vacuum without co-ordinated support from appropriate development wings of Government, infrastructural and other financial institutions.

4. Structurally DFCs are generally weak with meagre or no capital base, low operating spread and scanty volume of business.

In some of the DFCs the law itself does not provide for a capital structure while whatever monies have been contributed are more in the nature of counterpart funds rather than as a buffer to absorb losses and loan delinquencies. (Value of land and other non-banking assets passed on to DFCs is shown as capital in some cases.)

The profile of DFCs shows:

a) Capital Base

2 DFCs have no cash capital - Grenada Agricultural and Industrial Development Corporation and Development Finance Corporation, St. Vincent.

2 DFCs have only nominal amounts of capital - Development and Finance Corporation, St. Kitts and Agricultural Co-operative Bank of St. Vincent.

6 DFCs have tolerable levels of capital in terms of their book value (St. Lucia 2- Dominica - Belize - Antigua and Montserrat). Substantial decapitalisation has occurred in most cases due to progressive administrative and loan losses.

The general observation is that if DFCs in LDCs continue to operate with this set-up, the recovery of the Bank's loans would pose serious problems. The question therefore arises as to the course of action to be taken, vis-a-vis the future set-up of DFCs.

There can be no two opinions that DFCs cannot be allowed to continue operations for long with Governments merely meeting annual subventions. DFCs have to be so structured as to make them function as viable units if CDB is to continue its recognition of DFCs as sister organisations eligible to use its line of credit. A basic level of organisational skills, loan appraisal and administrative capabilities are also to be assured as essential reforms.

If this imperative need is recognised, two alternatives could be considered as a strategy for reorganisation of DFCs:

I. Revamp all DFCs on the basis of a model type of DFC with accepted parameters leading to viability in the medium-term future.

II. Establish a Regional DFC for LDCs functioning through branches in seven countries (Belize excluded).

I. <u>Proposal to Revamp DFCs</u>

Three Models of DFCs with different debt/equity relationships have been worked out - Appendix II - Type A 5:1, Type B 3:1, Type C 2:1. Broad assumptions common to all types are:

i) CDB provides all outside resources at 4% per annum.

ii) Average lending rate on sub-loans is 10% per annum.

iii) Level of sub-loans at Year 0 is $1 million, increasing every year at 30% of loans outstanding.

✓ iv) Administrative expenses is <u>$100,000</u> at Year 0 with 10% increase every year. $ 17 . . .

v) Provision for loan losses is made every year at 5% of loan disbursements.

vi) No short-term investments of funds are conceived until viability is achieved.

The Bank will also have to continue the pursuit of two other strategies already in operation, viz:

i) amalgamating DFCs in those islands having more than one DFC (St. Lucia and St. Vincent);

ii) provide the services of an experienced Manager to each DFC under CIDA Technical Assistance to build up necessary appraisal and general banking capabilities.

One of the ways of persuading the LDC Governments to accept this programme of revamping all DFCs as suggested above could be:

i) CDB give a 50 Year interest-free loan to Governments for enabling them to contribute to equity of DFCs, (say EC$4 million spread over four years to all seven DFCs).

ii) DFC invest the equity so contributed in special CDB Bonds (their maturity so revolved to make CDB loan self-liquidating) say at 7% interest and CDB as their Bankers make gainful deployment of the funds.

iii) CDB meet all their resources needed for development projects.

iv) CDB give a revolving fund (or float) to meet day-to-day liquidity needs to be set off against reimbursement claims.

v) Interest on Bonds will be paid to DFCs in lieu of Goverment subvention.

vi) CDB evolve a full-scale training programme to develop staff capabilities of DFCs.

Advantages of such a move would be:

i) Assured viability uniform lending policies and criteria, systems and procedures. Over a period of time it could be developed as a specialised financial instrument to promote economic and development policies of LDCs as a unit.

ii) Poor operational base of some of the member countries will not hinder the branches extending need-based credit and services.

iii) Branches could follow realistic interest rates/policy and try to mobilise local resources.

iv) Branches could be free to function on accepted business standards, insulate political interference and create a better image of its development role.

v) Scarcity of skilled managerial personnel to run DFCs could be solved in a better way with recruitment and training programmes

Disadvantages would be:

i) Branch of DFC will have no operational autonomy and divided decision-making responsibilities at branch level and that of Head Office will create two tiers of bureaucracy.

ii) Branch of DFC will have little or no involvement in Government's planning and development programmes; however, it can always vary priorities to align with Government's policies.

iii) It may find it difficult to achieve the much-needed orchestrated support from different Government departments and infrastructural institutions.

iv) Problem of loan delinquencies could pose difficult situations without Government's support. Legal action may have serious limitations in given situations.

v) Different levels of development and loan absorption in the countries will bring about complaints of inequitable resulting benefits.

This paper attempts to focus the major issues involved and suggest Possible strategies for reorganisation of DFCs in LDCs.

Once a policy decision is taken on the strategy to be adopted, financial and operational details for its implementation could be worked out.

R. P. Iyer

Attachments

RPI/mpl

PROFILE OF DFCS IN LDCS (In US$'000)

(Rate - 30 - 6.76)

US$1 = EC$2.70

= BZ$2.00

(1) Name of DFC	(2) Financial Year	(3) Banking Assets	(4) Long Term Debts	(5) Equity & Near Equity In Cash & Other Funds	(6) Debt/ Equity Ratio	(7) Operating Spread %	(8) Profit/ Loss	(9) Sub-Loans	(10) Borrowing From CDB	(11) CDBs Loans as % of Total Resources
elize D.F.C.	31.12.76	6,583	5,074	1,459	3.48	5.86	77	4,913	3,077	46.7
t. Lucia N.D.C.	31.12.76	1,064	1,350	210	6.43	3.40	-(108)	173	870	55.7
ominica N.C. & D.B.	31.12.76	1,169	541	152	3.56	3.14	-(18)	410	540	77.0
renada A.I.D.C.	31.12.76	936	870	-	--	-(.59)	-(47)	571	366	19.1
t. Lucia Agricultural Industrial Development ank	31.12.76	991	670	20[illegible]	2.[illegible]	4.96	-(13)	798	194	20.9
t. Vincent D.F.C.	31.12.75	894	830	-	-	3.15	-(132)	450	630	75.9
ntigua B.D.B.	31.12.76	1,066	565	370	1.53	4.05	2	665	377	40.3
ontserrat D.F. & M. C.	30. 6.76	355	185	75	2.47	3.6	-(57)	127	123	20.7
t. Kitts D.F.C.	31.12.73	337	555	3	185.0	4.85	-(13)	226	113	20.0
t. Vincent Agricultural Co-operative Bank	30. 6.76	291	282	5	56.4	2.61	-(23)	247	150	52.2

Appendix II

CALCULATIONS FOR A MODEL DFC

$'000

TYPE A - D/E Ratio - 5:1

	Yr.0	Yr.1	Yr.2	Yr.3	Yr.4
Equity	167	217	282	367	476
Debt	833	1,083	1,408	1,830	2,380
Sub-loans	1,000	1,300	1,690	2,197	2,856
Income	67	87	113	147	190
Administrative Expenses	100	110	121	133	146
Provision for Loan Losses	-	15	20	25	33
	-33	-38	-28	-11	+11

Operating Spread = 6.67% per annum Total Equity = 586

TYPE B - D/E Ratio - 3:1

	Yr.0	Yr.1	Yr.2	Yr.3	Yr.4
Equity	250	325	423	549	714
Debt	750	975	1,267	1,648	2,142
Sub-loans	1,000	1,300	1,690	2,198	2,856
Income	70	91	118	154	200
Administrative Expenses	100	110	121	133	146
Provision for Loan Losses	-	15	20	25	33
	-30	-34	-23	-4	+21

Operating Spread = 7% Total Equity = 805

TYPE C - D/E Ratio - 2:1

	Yr.0	Yr.1	Yr.2	Yr.3	Yr.4
Equity	333	433	563	732	952
Debt	667	867	1,127	1,465	1,904
Sub-loans	1,000	1,300	1,690	2,197	2,856
Income	75	95	124	161	209
Administrative Expenses	100	110	121	133	146
Provision for Loan Losses	-	15	20	25	33
	-27	-30	-17	+3	+30

Operating Spread = 7.33% Total Equity = 1,023

ANNEX: VI-9
Consist of 13 pages

MEMORANDUM

To: Management Committee
From: DFC Officer
Date: November 14, 1977
Subject: DFCs in LDCs - Programme for Structural Reorganisation to Ensure their Viability - Supplementary Note

---

Management Committee had preliminary discussions on the Memorandum of October 31, 1977 on the above subject and directed that the three Models of DFCs shown at Appendix II to that note may be reworked on revised norms as under:

i) Administrative expenses of a DFC to be EC$175,000 (instead of EC$100,000) at Year 0, with 10% increase annually.

ii) Provision for loan losses to be at 3% of loans outstanding at the close of each year, instead of 5% of incremental annual loan disbursements.

Calculations on the basis of revised norms for three Models of DFCs (Types A, B, C) are shown in Appendix III.

To help appreciation of the varied financial impact arising from 'Provision for loan losses', figures based on three different criteria have also been worked out (Appendix III), that is:

i) at 3% of loans outstanding at close of each year,
ii) at 2% of loans outstanding at close of each year;
iii) at 5% of incremental annual loan disbursements.

Keeping in view the target of loan operations of $3 million at the end of Year 5, it may not be realistic to assume that DFC starts ab initio with a full complement of staff; this could gradually be built up over a period of five years. Based on this pragmatic approach, one could take the view that a DFC may start operations with the existing complement of staff, gradually building up requisite staff capabilities over the next five years. Any administrative expenses left uncovered by income (after making provision for losses) could be capitalised during the first five years and made good by Government, in addition to the equity contribution required to be made by it for keeping up the debt/equity relationship at 3:1 on an annual basis. In fact, the working of a Model DFC (3:1 debt/equity ratio) with administrative expenses at $150,000 at Year 0 with 10% annual increase and an annual provision for bad debts at 5% on incremental loan disbursements shows that the DFC will work at a profit of $16,000 at Year 6 (Appendix VI).

We may therefore accept Model C (debt/equity ratio 3:1) as the standard for restructuring all DFCs in LDCs.

Management Committee also raised, inter-alia, two other strategies to be considered while dealing with the question of reorganisation of DFCs:

1. CDB open branches in all LDCs (alternative No. 3).

2. DFCs may be restructured to function as wholly or partly-owned subsidiaries of CDB (alternative No. 4).

Pros and cons of these two strategies are now discussed.

1. <u>CDB Open Branches in Each LDC</u>

   Implementation of this suggestion could pose the following problems:

   a) <u>Existing Loan Portfolio of DFCs</u>

      Should the branch take over and administer all sub-loans of DFCs as existing at present, that is, including loans falling outside the parameters fixed for use of CDB funds. If so, the recoverable portion of such funds has to be determined by a detailed examination and accounted to Government (the irrecoverable portion may be held in a separate collection account).

Assuming that branches obtain an average operating spread of 6% per annum (10% - 4%) the calculations in Appendix V will show that there is no prospect of the branch becoming viable even after expiry of the initial five years. The accumulated loss of each branch for five years will be $722,000 (Standard 3, Appendix V) and for seven branches it would amount to a total loss of EC$5.0 million in five years to be borne by CDB. There could also be problems connected with taking over existing staff of DFCs by the branches. [illegible]

The advantages are: [illegible]

a) Branches could result in greater efficiency, better control over loan portfolio, general improvement in the quality of administration and perhaps some saving in overall administrative expenses. In addition the servicing of loan accounts for amounts above US$100,000 presently attended to directly from CDB could be decentralised to the branches.

b) It could be advantageous to Government in that capital input in DFCs by Government could be avoided.

Loan delinquencies will be a direct responsibility of the CDB.

Loan administration/supervision of CDB over its seven branches will have to be considerably strengthened.

2. Restructuring DFCs to Function as Subsidiaries

The ownership of equity of a DFC whether entirely by CDB or partly by it and the local Governments does not materially affect the economics of its operations leading to viability. However, this strategy could improve management and technical capabilities and improve the overall efficiency of its operations. On the other hand, if CDB tries to retain control through majority shareholdings, there could be room for day-to-day conflict in management decisions without in any way improving its viability aspect.

CALCULATIONS FOR A MODEL DFC

(EC$000)

Type A - D 1 Equity Ration 5:1

	Y_0	Y_1	Y_2	Y_3	Y_4	Y_5
Equity	167	217	28[illegible]	367	476	613
Debt	833	1,083	1,408	1,83[illegible]	2,380	3,094
Sub-Loans	1,000	1,300	1,690	2,1[illegible]	2,856	3,712
Net Income	67	87	113	147	1[illegible]	248
Administrative Expenses	175	1[illegible]	2[illegible]2	233	256	202
(1) Provision for Loan losses at 3% of outstandings	30	39	50	65	85	111
	-138	-145	-14[illegible]	-151	-151	-145
(2) @ 2% of Loan outstandings	20	26	33	43	[illegible]	7[illegible]
	-128	-132	-13[illegible]	-129	-123	-106
(3) @ 5% of incremental annual disbursements		15	20	25	33	43
	[illegible]	-121	-1[illegible]9	-1[illegible]	-99	-77

Operating Spread - 6.67% Per Annum

	Total Loan Provision for 5 Years	% of Total Loan Provisions to total loan outstandings at Year 5	% of Loan provision % to net income at Year 5	% Total Loan Provisions to Cumulative net income for 5 years
1 (3%)	380	10.2	44.8%	44.6%
2 (2%)	253	6.8	25.3%	25.7%
3 (5%)	130	3.7	17.3%	16.0%

Type - C-D/E Ratio - 2:1

	Y_0	Y_1	Y_2	Y_3	Y_4	Y_5
Equity	333	433	563	732	952	1,237
Debt	667	867	1,127	1,465	1,904	2,475
Sub-Loans	1,000	1,300	1,690	2,198	2,856	3,712
Net Income	73	95	124	161	209	272
Administrative Expenses	175	193	212	233	256	282
(1) Provision for loan losses at 3% of loan outstandings	30	39	50	65	85	111
	-132	-137	-138	-137	-132	-121
(2) @ 2% of loan outstandings	20	26	33	43	57	74
	-112	-124	-121	-115	-104	-84
(3) @ 5% of incremental annual disbursement	-	15	20	25	33	43
	-102	-103	-108	-97	-80	-55

Operating Spread - 7.33%

	Total Loan Provisions for 5 Yrs.	% of Loan Provisions to total Loan at Yr. 5	% of Loan Provision to Net Income at Yr. 5	% of Loan Provisions to Cumulative Net Income for 5 Years
1	380	10.2	40.8%	40.7%
2	253	6.8	27.2%	27.1%
3	136	3.7	15.8%	14.6%

ADMINISTRATIVE EXPENSES OF A MODEL DFC FOR LDCS

		ECS Per Month
I	**Expenses Head**	
	Manager	1,800
	Accountant	1,200
	Assistant Accountant	800
	Farm Improvement Officer (1)	1,100
	Farm Improvement Assistant	800
	Industry Officer	1,100
	General Assistants (4)	2,300
	Messenger	200
		9,800
	Superannuation 10%	980
		10,780
II	**Establishment**	
	Rent	500
	Telephone & Electricity	500
	Stationery	300
	Travelling	1,000
	Sundries	500
		2,800
	Total Administrative Expenses	13,580 x 12
		=162,960
	Say	=163,000

APPENDIX V

CALCULATIONS SHOWING VIABILITY OF BRANCH OF CDB

(EC$000)

	Y_0	Y_1	Y_2	Y_3	Y_4	Y_5
Sub-Loans	1,000	1,300	1,690	2,100	2,356	3,712
Net Income	60	78	101	132	175	223
Administrative Expenses	175	193	212	233	256	282
(1) Provision for loan losses at 3% of outstandings	30	39	50	65	85	111
	-145	-154	-161	-166	-17	-17
(2) @ 2% of Loan outstandings	20	26	33	43	57	74
	-135	-141	-144	-144	-302	-133
(3) @ 5% of incremental annual disbursements	-	15	20	25	33	43
	-115	-137	-131	-126	-118	-102

Operating Spread - 6%

Note

1. Being a branch of CDB, all funds are from Head Office at a cost of 4% and average lending rate of sub-loans at 10%.

2. Administrative expenses and provisions for loan losses are on the same standards as if it is an independent DFC.

APPENDIX VI

CALCULATIONS FOR A MODEL DFC

(EC$'000)

Type D - Debt/Equity Ratio 3:1

	Y 0	Y 1	Y 2	Y 3	Y 4	Y 5	Y 6
Sub-loans	1,000	1,300	1,690	2,198	2,856	3,712	4,82[illegible]
Net Income	70	91	118	154	200	260	33[illegible]
Administrative Expenses	150	165	182	200	220	242	2[illegible]
Provision for Loan Losses at 5% of Annual Loan Disbursements		15	20	25	33	43	[illegible]
	-80	-89	-84	-71	-53	-25	+1[illegible]

Note:

1. Administrative expenses are assumed at $150,000 at Year 0 with 10% annual increase.
2. Provision for loan losses at 5% of annual loan disbursements.

APPENDIX [illegible]

VIABILITY OF BRANCH OF CDB

(EC$'000)

	Y 0	Y 1	Y 2	Y 3	Y 4	Y 5	Y 6	Y 7
Sub-loans	1,000	1,300	1,690	2,19[illegible]	2,856	3,712	4,826	6,273
Net Income	60	78	101	132	171	223	28[illegible]	376
Administrative Expenses	150	165	182	200	220	242	266	292
Provision for Loan Losses at 5% of Annual Loan Disbursements	[illegible]	[illegible]	[illegible]	[illegible]	33	43	[illegible]	72
		15	20	25	33	43	56	72
	-90	-102	-101	-93	-82	-62	-33	+12

Operating Spread 6%

Note: Administrative Expenses are assumed at $150,000 at Year 0 with 10% annual increa[illegible]
Provision for loan losses at 5% of annual disbursements.
On these assumptions the branch of CDB could be viable at Year 7.

PRIVATE BANKS OPERATING IN BARBADOS, EASTERN CARIBBEAN, GUYANA AND JAMAICA

BARBADOS	No. of Banks
Bank of Novia Scotia	7
Barbados National Bank	4
Barclays Bank International Limited	14
Canadian Imperial Bank of Commerce	9
Chase Manhattan Bank	1
Citibank N.A.	3
The Royal Bank of Canada	8

ANTIGUA	
Canadian Imperial Bank of Commerce	1
Bank of Nova Scotia	1
Antigua Co-operative Bank	1
The Royal Bank of Canada	1
Barclays Bank International Limited	3

DOMINICA	
Barclays Bank International Limited	3
National Commercial and Development Bank	1
Banque Antillaise	1
The Royal Bank of Canada	1

GRENADA	
Barclays Bank International Limited	2 (+ 3 agencies)
Canadian Imperial Bank of Commerce	2
Bank of Nova Scotia	1
Grenada Co-operative Bank	1
Grenada Bank & Trust Comoany	1
The Royal Bark of Canada	3

ST.KITTS	
Barclays Bank, St.Kitts/Nevis/Anguilla	3
Bank of America N.T. & S.A. Anguilla	1
Bank of Commerce St.Kitts	2
St.Kitts/Nevis/Anguilla National Bank Ltd St.Kitts & Nevis	3
The Royal Bank of Canada	1

ST.LUCIA

Barclays Bank International Limited	7
Canadian Imperial Bank of Commerce	2
Bank of Nova Scotia	3
Chase Manhattan Bank	1
St.Lucia Co-operative Bank Limited	1
The Royal Bank of Canada	2

ST.VINCENT

Barclays Bank International Limited	5
Canadian Imperial Bank of Commerce	1
Bank of Nova Scotia	1
National Commerce Bank of St.Vincent	1
The Royal Bank of Canada	1

GUYANA

Barclays Bank International Limited	2 (+ 1 sub-branch)
Bank of Baroda	1
Chase Manhattan Bank	1
Bank of Nova Scotia	1
Guyana National Cooperative Bank	10
The Royal Bank of Canada	5 (+ 2 sub-branches)

JAMAICA

Bank of Nova Scotia	52
National Commercial Bank	45
Royal Bank	16
Citibank N.A.	8
Workers' Savings & Loan Bank	11
Bank of Commerce	14
Jamaica Citizens Bank	6
First National Bank of Chicago	5
Bank of Montreal	3

Annex VII - I

FM: STATE 015774

ACTION
AID

INFO
AMB
CHARGE
CHRON
RF

JAN 22 1979

AM

NNNNUV WN0809
RR RUEHWN
DE RUEHC #5774 0200804
ZNR UUUUU ZZH
R 200541Z JAN 79
FM SECSTATE WASHDC
TO AMEMBASSY BRIDGETOWN 4341
BT
UNCLAS STATE 015774

ACTION: SCRymer
DUE DATE: 1/25/79
ACTION TAKEN: Hold for PP
DATE: 1/26/79
SIGNATURE:

AIDAC

E.O. 12065 12065: N/A

TAGS:

SUBJECT: SOCIAL ANALYSIS FOR EMPLOYMENT INVESTMENT LOAN PP

1. LAC/DR'S JUDGMENT IS THAT A SOUND SOCIAL ANALYSIS FOR THE EMPLOYMENT INVESTMENT GRANT PROJECT WAS DONE IN AUGUST 1978. THE BENEFICIARIES HAVE EXPERIENCED NO SIGNIFICANT CHANGE SINCE THAT TIME. THE BUREAU FEELS THAT THE SOCIAL ANALYSIS DONE FOR THE GRANT, WITH MODIFICATIONS TO REFLECT THE CHANGE IN MODE OF ASSISTANCE FROM GRANT TO LOAN, WILL SUFFICE FOR THE UPCOMING EMPLOYMENT INVESTMENT LOAN PROJECT. VANCE
BT
#5774

Employment by Industry: Barbados, Dominica, Montserrat, and St. Lucia

	Barbados 1st Qtr 1978 Male %	Barbados 1st Qtr 1978 Female %	Barbados 1st Qtr 1978 Total %	Dominica Dec, 1977 %	Montserrat July 1977 Male %	Montserrat July 1977 Female %	Montserrat July 1977 Total %	St.Lucia 1978 %
1. Agriculture, Forestry & Fishing	8.5	10.8	9.5	33.3	26.3	22.9	24.8	43.4
2. Mining & Quarrying	.2	–	.1	–	–	–	–	.4
3. Mining & Manufacturing	–	–	–	–	9.1	12.8	10.7	–
4. Construction	10.4	.5	6.1	3.9	15.1	1.0	9.1	7.3
5. Manufacturing	12.7	15.4	13.9	5.1	–	–	–	6.0
6. Electricity, Water, Gas	1.0	1.2	1.1	1.1	2.9	1.0	2.1	.6
7. Retail and Wholesale Trade	21.6	24.7	22.9	16.7	7.1	11.7	9.1	8.0
8. Hotels (and restaurants)					3.8	4.9	4.2	3.5
9. Transport & Communication	9.6	3.0	6.8	8.4	10.1	1.7	6.5	4.6
10. Financial & Insurance	5.0	5.0	5.0	1.1	1.6	4.4	2.8	4.0
11. Government services				17.8	14.0	24.1	18.3	
12. Professional services	31.0	39.3	34.6	3.7	2.0	1.0	1.6	22.0
13. Other services				8.9	8.2	14.5	10.8	
Total	100.0	100.0	100.0					
Total number employed	51,900	39,700	91,600	22,500	1,945	1,436	3,381	40,000

SOURCES:
1. Calculated by AID team from Barbados Statistical Service Data from the Continuous Household Sample Surve
2. Calculated from estimates by David Wood, The Manpower Situtation in Dominica ...N.P.O. Nov, 1978 page 9. Midpoints of range of estimates used.
3. Foster, Michael and Vaughan Evans, Manpower in Montserrat 1978 - 1982, British Development Division, Barbados, May 1978, Table 5. Data sources: National Provident Fund and Treasury data plus author's estimates of self-employed.
4. Supplied by David Wood to the AID team. Data source: Household Labor Force Survey 1978, A. Rooke. Please note that the estimates are not reliable. Mr. Wood believes that agriculture as a principal industry of employment is overstated while distributive trades and hotels are likely understated.

ILLUSTRATIVE ANNUAL BUDGET FOR SMALL BUSINESS ADVISORS

Salary	$20,000
House Allowance	6,600
Allowance (Med. schools)	2,000
Travel	2,200
Communications and Administrative Expense	1,500
	$32,300

Estimated costs for 1979 project

Inflation at 10% per year compounded annually

	Annual Budget/Pension	$Cost/Month	Months	Annual$Cost
CY 1979	32,300	2691	15	40,365
CY 1980	35,530	2960	105	310,800
CY 1981	39,083	3257	77	250,789
CY 1982	42,991	3583	43	154,069
				756,023
		Contingencies and Rounding		43,977
				$800,000

ILLUSTRATIVE USAGE PLAN FOR SMALL BUSINESS ADVISORS

Assumes eleven SBA's will be required in the thirteen eligible countries for various periods of time (all contracts a minimum of 1 year).

DFC's OR COMMERCIAL BANKS	PERSON MONTHS OF TA CY 1979	CY 1980	CY 1981	CY 1982
Antigua	3	12	9	
Belize	3	9		
Dominica	3[1/]	12[1/]	9[1/]	12
St. Vincent		12	4	8
Barbados		12	9	3
Guyana		12	9	3
Montserrat	3	12	9	
Grenada		6	12	6
St. Kitts	3	9	4	8
St. Lucia	3	12	9	
BVI, Turks & Caicos, Cayman		9	12	3
Total PM's	18	117	86	43
Adjusted Total[1/]	15	105	77	43

1/ To be funded by FY 1978 Grant for first two years

ILLUSTRATIVE BUDGET FOR SPECIALITY TECHNICAL ASSISTANCE

	PERSON MONTHS			
	CY 79	CY 80	CY 81	CY 82
Export Promotion (Not included in FY 1978 project)	3	14	36	24
Estate and Buildings Standards	3	10	14	8
Standard Shell Design	2	10	20	
Small Business Support	10	24	24	36
Total PM 238	18	58	94	68

Assuming $2,500 average cost per person month of technical assistance including inflation and contingencies, the estimated annual cost is $45,000 in CY 1979, $145,000 in CY 1980, $235,000 in CY 1981 and $170,000 in CY 1982. Total estimate cost $595,000.

Annex VIII - 3

SMALL BUSINESS ADVISOR

Illustrative Scope of Work

The SBA will be an advisor to Chief Executive Officer of the financial institution with responsibility for day-to-day operations of small business loans.

SBA will be responsible for building up systems and procedures for maintenance and control of accounts, internal control measures and building up management information on small businesses.

In particular, the advisor will be responsible for establishing systems for loan processing, approval, recover and in small business loan operations.

SBA will help the financial institution develop appropriate lending policies and priorities.

The advisor will coordinate the crédit activities of the financial institution with other local service, financial institution with other local service, financial institutions and government departments.

Develop training systems and staff capabilities in different disciplines suitable to available operations.

The SBA will also be a local country contact and assist in coordination of the 1979 AID/CARICOM training project. The training project is complimentary to this project and will finance the development and provision of special approving officer for small loans in place of the SILO, thereby, eliminating some delay in the financial institutions response to the entrepreneur. Some 22 person years of technical assistance have been estimated to be required (11 LDC's X 2 years).

The following is illustrative of the background knowledge and experience required for the position of small business advisor:

Background Requirements

Some five to ten years of practical experience in commercial or development banks in middle-level executive positions.

A working knowledge of small business accounting systems and internal control procedures, experience in small business loan approval and administrative procedures.

The executive ability and resourcefulness to build up development banking systems capabilities and effective responses to small business and industry.

Experience in project appraisal, industrial management and marketing will be an advantage.

Annex VIII - 4

TECHNICAL ASSISTANCE SUPPLIED BY THE PEACE CORPS

Examples of assignments are as follows:

- a PCV Small Business Adviser assigned to the Ministry of Trade in St.Lucia. The major responsibilities of this PCV are to provide advice and assistance on book-keeping, pricing, inventory control, etc. to a clientele of some 50-100 small businessmen (i.e bakeries, gas stations, restaurants, etc). The PCV is frequently called upon to assist the businesses in making applications for loans from various lenders.

- a PCV Business Manager assigned to the Development Finance and Marketing Corporation in Montserrat. This PCV's responsibilities centered on providing day in and day out advise and assistance to the managers of the various industrial operations that the Government of Montserrat undertakes.

- a PCV Industrial Development Adviser assigned to the Ministry of Economic Development in Antigua. This PCV's major responsibilities were to meet and negotiate with potential investors in Antigua to explain business possibilities, describe the pros and cons of operating a business in Antigua, verify the financial credibility of the potential investor, assist in arranging financing when necessary, etc.

- a PCV Business Adviser assigned to the Department of Self Help and Community Development in Dominica. This assignment calls for the PCV to: identify small business opportunities on the island; make recommendations as to the provision of financial assistance to worthy businesses; provide advice and assistance in all aspects of small business management.

- a PCV Business Manager assigned to the Ministry of Trade in St. Kitts. This PCV's responsibility was to make the Government Handicraft Shop a profitable, viable business.

The five assignment types described above - from actually managing a new business to advising many small businesses to dealing with potential investors to some mix of all of these -- describes the range of business development type projects that are to be expanded to include more countries of the region. Providing even a greater impact on the small business community.

Annex VIII - 5

Page 1 of 2

CDB STANDARD LOAN TERMS AND CONDITIONS

	Ordinary Resources	Soft Resources
Interest Rates		
Government (Infrastructural & Public Utilities)	8 + 1 (Commision)	4%/
Government Financial Intermediaries	7½+ 1	4%/
Productive Enterprises (Industry & Hotels)	9½+ 1	-
Productive Enterprises (Agriculture)	8½+ 1	-
Upper Loan Limits *		
LDC Governments	80% of project cost	90% of project cost
MDC Governments	70% of project cost	80% of project cost
Private borrowers	60% of projects costing up to US$375,000	Same as O.R. Funds
	40% of projects costing over US$375,000	Same as O.R. Funds
Lower Loan Limit *	US$100,000	US$100,000
Commitment Fee	¾ of 1% p.a on undisbursed balance from a date 60 days after signature of Loan Agreement	Nil
Term and Crace Period *		
Government: Grace period	Normally 2 years	Up to 5 years
Government: Term after grace period	10 - 15 years	15 - 20 years
Private Borrowers: Grace period	Up to 5 years	Same as O.R. Funds
Private Borrowers: Term after grace period	5 - 10 years	Same as O.R. Funds
Security Requirements		
Governments	Negative pledge clause	Negative pledge clause
Government Agencies	Government Guarantee	Government Guarantee
Private Borrowers *	Adequate security normally in form of first legal mortgage of land or other form without prior claims acceptable to the Bank	Same as O.R. Funds

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/In the case of the Special Development Fund includes 1% per annum service fee.

* Under CDB Review

	Ordinary Resources	Soft Resources
Exchange Risk	Borne by borrower or guarantor	Borne by borrower or guarantor
Purposes for which this loan may be used:		
	For productive enterprises, and services which contribute to productive enterprises, for marketing, manufacture, and medium-sized regionally owned hotels, transportation, and services related to the development of those sectors of the economy and regional projects. Loan funds cannot be used to finance budget deficits or balance of payments deficits, for purchase of equities or speculation in shares.	
Procurement	Utilize CDB procurement procedures. CDB member states and territories; USA.	Same as O.R. funds

DEVELOPMENT FINANCE CORPORATIONS*

Background

(1) Examine and comment on the economy of the country with special reference to the Government's policy and legislation affecting the sectors in which the DFC will operate.

Legal

(2) Examine and comment on the DFC's charter document.
(3) Are its operations in keeping with its functions and powers as laid down in its charter?
(4) Is the proposed loan within DFC's borrowing powers?

The Project

(5) What are the resources of the DFC and how much of these resources have actually been provided or will be provided?
(6) Forecast of the demand for DFC funds classified as far as possible into the various sectors and sub-sectors. The assumptions governing the rate of approvals and disbursements should be stated.
(7) In the case of an existing DFC examination of its past record with special reference to approvals, disbursements, arrears of interest and instalments etc. and analysis of recent financial statements.
(8) List of projects in the pipeline.
(9) Examination of alternative sources of medium and long-term funds available to prospective borrowers, e.g. commercial banks, hire purchase companies.
(10) Examination of the forecast demand for DFC funds in relation to the resources available to the DFC.

Management

(11) Comment on DFC's Governing Body and its ability to ensure effieicnt operation of the DFC.
(12) What is the DFC's internal organisation; attach organisation chart; identify and evaluate holders of key positions, e.g.

Chief Executive,
Accountant
Loan Officers,
Technical Staff.

(13) Comment on arrangements for Loan Supervision.
(14) Comment on arrangements for staff development and training.
(15) Are the DFC's accounting and auditing arrangements satisfactory? Who are its auditors?
(16) Are the DFC's arrangements for legal documentation of its loans satisfactory? Who are its legal advisors? Are proper records and registers maintained? Are the arrangements for the safe custody of security documents satisfactory?
(17) Are the arrangements for maintenance of insurance by borrowers satisfactory?
(18) Are the DFC's Policy Statement/loan regulations satisfactory?
(19) Are the DFC's loan application forms satisfactory?
(20) Does DFC staff use a check-list for project appraisals and is it satisfactory?
(21) Examine and comment on DFC's disbursement and procurement procedures.

*Or similar institutions.

Financial

(22) Certified balance sheets and income and expenditure statements or the Government Auditors Report for the last three years should be obtained. These financial statements should be analysed with attention being given to the following areas:-

(a) Fixed Assets to Net Worth

What is the make-up of net worth? Since the DFC is a Finance Corporation, its investment in fixed assets should be at minimum.

(b) Total Debt to Worth

How much debt is current and how much is long-term? What is the relationship to net worth?

(c) Is the DFC viable? If it depends on a Government subsidy, is the level of the subsidy adequate? Examine its ability to make adequate provision for bad debts and to build a satisfactory level of reserves out of its earnings.

Analyse the Working Capital position as follows:

(i) To what extent has working capital been retarded by investments in assets other than those that are considered to be in the normal operation of the business.

(ii) Have earnings been sufficient to provide for growth of resources in line with increased investment?

(iii) Is the dividend policy, if any, designed to permit a steady expansion of resources?

(iv) Have operating losses proved to be a serious drain on resources?

(v) Is the DFC able to meet its annual maturities or deferred debt without draining its working capital?

(vi) Have proceeds of new financing been applied to strengthening the resource position or have they been used for other purposes?

What is the DFC's interest rate structure and its other charges?
Does the proposed loan involve a foreign exchange risk and how is this covered?

General

Assess the impact of the DFC on the economy of the country.

1) Summary Recommendations of the CDB as to qualification for AID Loan Funds and why.

SUB PROJECT REVIEW CHECK LIST USED BY THE CDB

Manufacturing Projects

Market

Describe products to be manufactured and estimate required ex-factory prices.

Define the Market area and estimate the total market potential.

Consider location of factory in relation to market, labor, airport and sea ports.

Examine competition both within and from outside the market area, and depending on this dermine the basis of marketing and distribtion policy.

Estimate likely market share.

Project sales volume based on market share; consider possible start-up problems and set-backs in the initial years. Is there a seasonal influence in the market? Will there be any Government action - allocation of quotas, tariff protection etc.?

Operations

Describe overall physical requirements (plant and equipment).

Describe existing machinery, equipment and vehicles showing year, purchase price and estimated value.

Describe new machinery, equipment and vehicles required.

Capacity, estimated cost (including installation) and suppliers. Can CDB procurement guidelines be satisfied?

Consider local availability of spare parts and maintenance service for machinery and equipment.

Estimate Working Capital requirements.

Investigate suitablility of existing/proposed factory layout.

Check whether technology is appropriate.

Estimate labor cost per unit, broken down by operation if possible.

Investigate adequacy of resource requirements:

(a) Present and future raw material
(b) Present and future labor supply
(c) Availability of plant and equipment, of technical support and training facilities.
(d) Utilities and services.

Estimate material costs per unit, broken down by size and type of material.

Estimate unit costs of packaging, consider arrangements for shipping and distribution of products.

Estimate monthly direct production costs such as utilities, maintenance, supplies and general production personnel.

Estimate annual general operating expenses.

Estimate pre-investment costs such as legal fees, travelling for inspection, moving staff, training etc.

Determine Break-even sales; project income and expenditure in detail showing profit or loss.

Estimate total dollar sales.

Financing

Estimate of Capital Costs:

(a) Land and Buildings
(b) Machinery and equipment (including installation)
(c) Initial inventory investment

Estimate of inventory build-up, increase in current assets, and the effects of deferred payments and receipts.

Identify sources of financing and determine debt/equity ratio.

Estimate debt service requirements (loan amortisation).

Prepare cash flow schedules and calculate financial rate of return.

Determine the adequacy of the security offered for the proposed CDB loan.

Tourism/Hotel Projects

Brief history of the tourist/hotel industry in the country concerned. How many units exist in the class of establishment proposed? What is the room occupancy history for the past four years and how is it projected forward? What is the seasonality of demand?

Define the exact strata of the tourist market to which the project will appeal and the geographical areas from which visitors are likely to be drawn.

Outline the marketing strategy required to achieve the occupany figures forecasted.

Appraise the quality of top and middle management proposed.

Clear definition of assumptions used to arrive at the financial and economic rates of return.

Breakeven calculation in terms of both gross revenue and room occupancy percentage.

FINANCIAL ANALYSIS

The following procedures should be followed where applicable:

A credit check should be made on the borrower.

The firm's certified, audited balance sheets and operating statements including any other financial statements or prepared budgets should be obtained.

A trend analysis from the above statements should be made involving the use of ratios to show the following:

(a) Liquidity Position
(e.g.) Quick and current ratios
Inventory Reliance
Inventory and Receivables Turnover
Cash Conversion Period

(b) Defensive Position

Fixed Assets to Worth
Debt to Worth

(c) Analysis of Net Worth Section of Balance Sheet

(i) Type of shares e.g. common or preferred

(ii) Voting rights. Are the preferred shares voting or non-voting, cumulative or non-cumulative? Are they callable? At what price and at or by what point in time?

(iii) Who are the shareholders and in what other businesses are they engaged?

(iv) What brought about the changes in net worth, if any?

(d) Profitability in Relation to Sales

(i) Gross Profit Margin
(ii) Net Profit Margin
(iii) What are the tax obligations of the firm and are they being met?
(iv) Are there any contingent liabilities by the borrower?

(e) Debt Service Coverage Ratio

Structure of costs and returns

(i) gross value added
(ii) net value added
(iii) capital employed per worker

Regional value added (in CARICOM Regional Context) by the project.

Financing plan for investment.

Cash Flow Projections

Projected income and expenditures and sources and application of funds statements.

A brief analysis of these statements showing assumptions used.

Any other statements relevant to the project.

ECONOMIC/COST BENEFIT ANALYSIS

Description of aspects of the economic environment relevant to the success of the project.

Market Analysis: Structure of market. Trends in demand and supply. New technology affecting either demand or supply. Competition from other industries.

Discussion of the nature of the benefits and costs.

Statement of assumptions made in pricing benefits and costs.

Who benefits from the project? employment, wages, purchases from other local industries, taxes paid, local shareholders, etc.

In the case of infrastructure projects, what industries use the applicants' services and what is the trend in such industries?

Calculation of the economic rate of return, or alternatively, of the maximum justifiable investment.

How sensitive is the rate of return to probable increases in costs and reduction in benefits.

OTHER EXPORT PROMOTION ACTIVITIES

The export promotion activities contemplated with this project are in support of the small businessmen. Other donor activities are indicated in the following two summaries:

SECOND MEETING OF THE CARIBBEAN GROUP FOR COOPERATION IN ECONOMIC DEVELOPMENT

CHAIRMAN'S REPORT: SUBGROUP A - REGIONAL PROGRAMS

June 8, 1979

"With regard to export promotion, it was agreed that the World Bank, with the participation and support of the UNDP, the International Trade Centre UNCTAD/GATT, the Organization of American States, the CDB and other appropriate institutions, would prepare a proposal for a long-term regional export promotion program, which would include:

a) estimates of the additional technical assistance in regard to both general policies and specific programs that may be required over the longer term in this field by the Caribbean Governments;

b) estimates of the technical assistance required by already established industries to reorient part of their production towards export markets;

c) institutional arrangements for establishing a regional export promotion program, including: (i) strengthening of national export promotion efforts; and (ii) establishment of common export promotion services; and

d) provision of necessary export training for the private and public sectors."

CARIBBEAN DEVELOPMENT BANK
P.O. Box 408 Wildey
St. Michael Barbados W.I.
Telephone: 61152 Cable Address: "Caribank," Telex WB 287.

Ref: 39/19

May 29, 1979

Mr. Joseph H. Blatchford
President
The Committee for the Caribbean
1700 Pennsylvania Avenue, N.W.
Suite 670
Washington D.C. 20006
U.S.A.

Dear Mr. Blatchford:

I acknowledge with thanks receipt of your Committee's Bulletin Vol. 1 No. 1, and of the accompanying information sheet. Both documents I found extremely interesting, particularly as two of the areas with which you are specifically concerned are trade and investment, both of which also fall into the spheres of activity of the programme for which I am presently working.

You will certainly be familiar with the Caribbean Development Bank (CDB) and possibly aware that the Bank implemented, at the beginning of 1978, jointly with the International Trade Centre UNCTAD/GATT (ITC), a programme of technical assistance in export promotion for the benefit of all the Caribbean Commonwealth member countries of the CDB. The ITC is the Agency within the United Nations family that offers technical assistance to developing countries in all aspects of export promotion, trade development, market expansion, etc. I am one of a three-man team seconded to CDB from ITC's Head Office in Geneva.

Since its inception, the joint CDB/ITC programme has implemented a wide range of activities on behalf of exporters in the region that it covers, oriented to promoting trade both within and outside CARICOM. These activities fall into three broad categories, namely:

1. The assessment and meeting of general functional needs, which are common to the region as a whole, such as export packaging, training in export promotion and trade information systems and documentation.

2. Identifying broad product groups that are important sources of employment and susceptible of export promotion, and carrying out export market research and direct marketing assistance on behalf of manufacturers on a region-wide basis. In 1978 we concentrated on garments; in 1979 we shall concentrate on non-traditional marine products, and possibly handicrafts and items made from wood.

2/.......

3. Specific tailor-made assistance for individual small and medium-sized companies, geared to helping them find export markets for their own products, with all the necessary backstopping, in-plant and out.

Our programme has also carried out market profile and appraisal studies, helped arrange and manage trade fairs, mounted seminars and taken exporters on export-oriented study tours of prospective markets. More details of our activities are contained in the accompanying Summary Report prepared by the Project Co-ordinator.

In some ways, the joint CDB/ITC programme is beginning to turn into a catalyst for other aid-organizations and agencies. Our resources are limited and the need for assistance is, as you know, very great. Over the past seventeen months, we have identified a wide range of areas where assistance is necessary. For example, in the field of training alone, a great deal must be done. I am enclosing a copy of our Report on this particular situation, which includes, as you will note, a 20-point Action Programme. We ourselves are able to implement two of these recommendations from our resources, and have chosen those which appear to us to be the most urgent among many which require immediate attention, namely the Instructors' Workshop, involving points Nos. 7 and 8 (a) and (b) and a roving seminar in Costing and Pricing, No. 13.

While your Committee is both wider-ranging and narrower in scope than our programme, in that we are limited to the CDB Commonwealth membership but not tied to one individual market (however large and important), you may care to reflect whether some of the areas indicated in our report might be worthy of your possible consideration as projects feasible within your Committee's objectives and terms of reference. Our own mandate would not preclude the undertaking of any assistance by any organization provided the format and content were approved by CDB and ITC.

We should be happy to keep you informed of our activities if this would be of value to you, as we do with the other aid-agencies in the region, including USAID in Barbados, and I look forward to your comments and suggestions as to how our mutual interests in this region can best be served. We have plenty of ideas on what needs to be done, and our concern is to see them put into practice.

As a short rider to the above, I have myself carried out a rather limited mission to the United States to examine the prospects for establishing sub-contracting agreements, joint venture arrangements or outright enclave facilities among one sector of the garment manufacturing industry, and was surprised by the highly positive reaction that I encountered. Four of the companies to whom I spoke have since been here to examine possible factory sites. This is another area where much can certainly be achieved.

I know personally your Advisory Council members Mr. Samaroo and Mr. N..sief, and they are familiar with our presence in the Caribbean.

3/......

Ms. Valerie McComie is in contact with ITC and UNDP regarding our programme.

Yours sincerely,

P.J.H. Slessor
Export Marketing Officer.

PJHS:cag
Encls.

c.c. Mr. A. Ruibal - ITC
Mr. S. Ryner - USAID

538 0018

JUN 27 1979

ACTION MEMORANDUM FOR THE ASSISTANT ADMINISTRATOR (LAC)

FROM: LAC/DR, Marshall D. Brown

Problem: Authorization of an $8.4 million loan and $250,000 grant for Fiscal Year 1979 and approval of LOP loan funding of $8.4 million and grant funding of $1.4 million to finance the Employment/Investment Promotion Project (No. 538-0018).

Discussion: This Project is a continuation of efforts initiated under a grant project of $1.6 million authorized in September 1978. The purpose of the Project is to stimulate the investment in small and medium sized businesses in order to increase production and employment in the region. To assist in achieving the Project purpose, three separate but related activities will be undertaken: (1) direct lending for industrial estates development and for expansion of the manufacturing, construction and service sectors, (2) indirect lending to small and medium enterprises through development finance corporations and commercial banking institutions and (3) technical assistance for export and industrial estates promotion and small and medium enterprise development.

Under the Project, the CDB will lend directly over the four year life of project. Loans will be made for industrial estates development, for projects in the industrial and service sectors, and for financing equipment, construction and permanent working capital. In addition to the direct lending activities, the CDB will on-lend to development finance corporations and commercial banking institutions between 1979-82. This on-lending will provide foreign and local funds to assist in the support and expansion of small and medium sized manufacturing and commercial enterprises. Technical assistance to be provided over the four year life of project will include a development banking specialist for the CDB, one small business advisor for each on-lending institution participating under the Project, and consulting services for export promotion, industrial estates management, design of factory shells and technical support to small businesses.

The total project cost is $12,360,000 over a period of four years. A.I.D. will contribute loan funding of $8.4 million and grant funding of $1.4 million of which $4.5

million will be for direct lending, $3.9 million for on-lending, and $1.4 million for technical assistance. The CDB, sub-borrowers, on-lending institutions and local governments will provide $2.0 million. This counterpart contribution will be used for small and medium enterprise credits and technical assistance.

The Project is included in the FY 1979 Congressional Presentation. The total Project cost, however, reflects an increase in funding level and a Congressional Notification is required. An Advice of Program Change was submitted to Congress on June 13, 1979, and the waiting period expired on June 27, 1979. An Initial Environmental Examination was prepared and a negative determination was made by the AA/LAC on August 24, 1978.

The LAC Bureau's Development Assistance Executive Committee reviewed the Project and recommended approval on June 11, 1979 subject to certain revisions in the Project Paper. The revisions have been incorporated into the Project Paper.

A review of shipping service to the Eastern Caribbean indicates that U.S. flag carriers provide service only to three of participating countries. The small value and size and the scattered geographic nature of the shipments which could be financed under the Project offer insufficient inducements for U.S. flag shippers to provide special services for shipments. A determination of non-availability of U.S. flag service for this Project is required and is signified by SER/COM's clearance on the attached Project Authorization.

In addition, A.I.D. financing of shipping costs on A.I.D. Geographic Code 935 carriers is requested under this Project. Given the limited shipping service described above, the interests of the U.S. are best served by permitting financing of transportation services on ocean vessels under flag registry of Code 935 countries. Pursuant to Delegation of Authority No. 40, and redelegation No. 40.01, SER/COM has the authority to approve shipments on non-U.S. flag carriers for transportation costs of up to $250,000. Approval of a waiver to authorize A.I.D. financing of shipping costs on A.I.D. Geographic Code 935 carriers for this Project is signified by SER/COM clearance of the attached Project Authorization.

The source and origin of goods and services loan financed under this Project is the Code 941 and member countries of the CDB, except for the United Kingdom and Canada. The Bank is composed of 18 regional members and the United Kingdom and Canada. The CDB's role is to mobilize resources from a variety of sources and then channel these to many small clients scattered over 2,300 miles of ocean. The United Kingdom and Canada have made considerable resources available - both grant and loan - to the CDB to finance its operations and lending programs. The CDB estimates that it is managing some seventeen funds with differing conditions, and this has become a serious administrative impediment to the efficient implementation of its program. As a result, the CDB has been working to achieve mutual untying among donors with A.I.D. and the United Kingdom responding by untying procurement in earlier projects. Although this Project does not involve funds from either the United Kingdom or Canada, the RDO/C believes that it would be appropriate to allow procurement of loan financed goods and services from these sources, thereby simplifying and improving the administration of CDB resources and minimizing conflicting variations for sub-borrowers scattered in islands and territories throughout the region.

As a policy, the LAC Bureau has been untying loans and grants to the CDB as each project was authorized, based on reciprocal action by the United Kingdom and Canada. We propose to continue that policy with this Project and therefore are proposing that you authorize procurement of up to $500,000 from the United Kingdom and Canada to be used upon agreement by the United Kingdom and Canada to untie a similar amount of their future contributions to the CDB for United States procurement. We will be submitting for the Administrator's approval a blanket waiver on all future A.I.D. financing to the CDB based on an agreement to be sought with the United Kingdom and Canada to untie their contributions to that institution. This will eliminate the necessity of submitting waivers at the time of each project approval.

Through Delegation of Authority No. 40, you have been delegated the authority to permit procurement of goods and services for up to $500,000 in any country included in A.I.D. Geographic Code 899 (Free World). Both the U.K. and Canada are within that Code. In order to assure that both these countries untie a like amount of funding in future grants and/or loans made during the life of the Project, the RDO/C in Barbados will request that the CDB obtain written assurances to that effect from both the United Kingdom and Canada. In the event that the United Kingdom and Canada do not agree to untie their procurement allowing the U.S. to compete on a non-discriminatory basis, no funds provided by this Project shall be available for the purchase of goods or services in the country of such donor.

Recommendation: That you (1) sign the attached Project Authorization for the Employment/Investment Promotion Project thereby authorizing a loan in the amount of $8.4 million and a grant in the amount of $250,000, and (2) approve the requested source, origin and nationality waiver permitting procurement of loan financed goods and services up to $500,000 from the U.K. and Canada by signing below, certifying that exclusion of procurement from these Free World (Code 899) sources would seriously impede attainment of U.S. foreign policy objectives and objectives of the foreign assistance program.

Approved: ______________________

Disapproved: ______________________

Date: ______________________

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

ASSISTANT ADMINISTRATOR

Loan No. 538-W-012
Ref: AID/LAC/P-019

PROJECT AUTHORIZATION AND REQUEST FOR ALLOTMENT OF FUNDS

Name of Entity: Caribbean Development Bank

Name of Project: Employment/Investment Promotion II

Project Number: 538-0018

Pursuant to Part I, Chapter 1, Section 106 of the Foreign Assistance Act of 1961, as amended, I hereby authorize a Loan and a Grant to the Caribbean Development Bank ("CDB") of not to exceed Eight Million Four Hundred Thousand United States Dollars ($8,400,000) (the "Authorized Loan Amount") and Two Hundred and Fifty Thousand United States Dollars ($250,000) (the "Authorized Grant Amount"), to help in financing certain foreign exchange and local currency costs of goods and services required for the project as described in the following paragraph.

The project will stimulate increased investment in small and medium sized business enterprises in the Caribbean region. The Loan will provide credits for programs of industrial estate construction, and for the financing of selected projects either through direct relending by the CDB or relending by CDB through local financing entities. The Grant will provide technical assistance to intermediate financial institutions, and small and medium size businesses, in conjunction with credit loan funds being administered pursuant to the project.

I approve the total level of AID appropriated funding planned for the project of not to exceed Nine Million Eight Hundred Thousand United States Dollars ($9,800,000) of Loan and Grant funding, of which $8,400,000 will be Loan funded and $1,400,000 Grant funded, including the funding authorized above, during the period FY 1979 to FY 1984. I approve further increments during that period of Grant funding up to One Million One Hundred and Fifty Thousand United States Dollars ($1,150,000) subject to the availability of funds in accordance with AID allotment procedures.

I hereby authorize the initiation of negotiation and execution of a Project Agreement or Agreements by the officer to whom such authority has been delegated in accordance with AID regulations and Delegations of Authority, subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as AID may deem appropriate.

I. The Loan shall be subject to the following terms and conditions:

A. Interest and Terms of Repayment

The CDB shall repay the Loan to AID in United States Dollars within forty (40) years from the date of first disbursement of the Loan, including a grace period of not to exceed ten (10) years. The CDB shall pay to AID in United States Dollars interest from the date of first disbursement of the Loan at the rate of two percent (2%) per annum during the grace period and three percent (3%) per annum thereafter on the outstanding disbursed balance of the Loan and on any due and unpaid interest accrued thereon.

B. Source and Origin

Except for ocean shipping and except as AID may otherwise agree in writing, goods and services financed by AID shall have their source and origin in any country included in AID Geographic Code 941 or in Member Countries of the CDB other than the United Kingdom and Canada; except that the United Kingdom and Canada shall be considered eligible for purposes of source, origin, and nationality for goods and services up to a total amount of $500,000 if the CDB obtains from the respective countries a written commitment, satisfactory to AID, to the effect that during the life of the Project such country will make available grant or loan funds (for this or other CDB projects) in a similar amount which will be available for expenditure in the United States (in addition to such other nations as may be specified) on a nondiscriminatory basis. Ocean shipping financed under the Loan shall be procured in any country included in AID Geographic Code 935.

C. Condition Precedent to Initial Disbursement

Prior to the first disbursement under the Loan, or to the issuance by AID of documentation pursuant to which disbursement will be made, the CDB will, except as AID may otherwise agree in writing, furnish to AID in form and substance satisfactory to AID, a description of the criteria to be used to determine the eligibility of lending institutions as intermediate lenders under the project.

D. Conditions Precedent to Disbursement to Secondary Financial Institutions

Prior to disbursement under the Loan, or to the issuance by AID of documentation pursuant to which disbursement will be made to any secondary financial institution, the CDB will, except as AID may otherwise agree in writing, furnish to AID in form and substance satisfactory to AID:

(i) An evaluation of the institution by the CDB with a specific finding as to the institution's viability and its ability to manage sub-loans; and

(ii) A statement of the procedures and criteria against which the institution will appraise the technical, financial, and environmental soundness of the projects.

E. Covenants for Sub-project Lending

Except as AID may otherwise agree in writing, the CDB will covenant that:

(i) Individual sub-projects costing in excess of U.S. $500,000 will be submitted to AID for approval prior to their being financed under the Loan; and

(ii) Prior to approval of financing by on-lending institutions for projects located in Jamaica, the CDB shall insure that financing is not available from the Small Scale Enterprises (SSE) loan program being financed by the International Bank for Reconstruction and Development.

F. Covenants for the Industrial Estates Program (IEP)

Except as AID may otherwise agree in writing, the CDB will covenant that:

(i) Prior to the approval of financing for an industrial estate project, the CDB will use its best efforts to establish with the sub-borrower a financial plan for management of the facility that includes minimum rental rates sufficient to cover loan debt service and maintenance.

(ii) It will work actively towards the adoption of a common regional policy on industrial estates, particularly as regards the reduction or elimination of rental subsidies.

G. Covenants For Use of Funds

Except as AID may otherwise agree in writing, the CDB will covenant that:

(i) It will provide in sub-lending agreements with intermediate credit institutions that project funds, including reflow, which are not used for project purposes within a reasonable period of time, shall be returned to the CDB for use on other aspects of the program. Funds repaid to the CDB shall be credited to CDB's Special Development Fund; and

(ii) It will use income from direct lending, over and above 3% for administrative costs and 2% allocation to reserves, from the interest spread on AID funds for technical assistance programs that will stimulate investment in small and medium business enterprises necessary to increase production and employment in the region.

II. The Grant shall be subject to the following terms and conditions:

A. Source and Origin of Goods and Services

Except for ocean shipping, the source and origin of goods and services financed by AID shall be Code 000 and countries of the English-speaking Caribbean defined as follows: Antigua, Barbados, Belize, British Virgin Islands, Dominica, Grenada, Guyana, Jamaica, Montserrat, Turks & Caicos, St. Kitts/Nevis/Anguilla, St. Lucia, St. Vincent, and Trinidad & Tobago. Ocean shipping financed under the Grant shall be procured in any country included in AID Geographic Code 935.

B. Condition Precedent to Initial Disbursement

Prior to any disbursement or to the issuance of any commitment documents under the Project Agreement, CDB shall furnish to AID, except as AID may otherwise agree in writing, in form and substance satisfactory to AID a statement of the name of the person(s) authorized under the Project Agreement to act as CDB's representative under the Agreement with authenticated specimen signatures of said representatives.

Assistant Administrator
Bureau for Latin America
and the Caribbean

Date

Clearances:

GC/LAC, J. Kessler ______ date 6/26
LAC/DR, L. Armstrong WSR for date 6/26
LAC/DR, M. Brown ______ date 6/26
LAC/CAR, A. Funicello ______ date 6/26
SER/COM, W. Schmeisser ______ date 6/27

GC/LAC:RMCotten:ec:6/15/79:x29182

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT PAPER FACESHEET

1. TRANSACTION CODE: A (A = ADD, C = CHANGE, D = DELETE)

PP

2. DOCUMENT CODE: 3

3. COUNTRY/ENTITY: CARIBBEAN REGIONAL RDO/C

4. DOCUMENT REVISION NUMBER: 0

5. PROJECT NUMBER (7 digits): 538-0013

6. BUREAU/OFFICE: A. SYMBOL LA; B. CODE 05

7. PROJECT TITLE (Maximum 40 characters): EMPLOYMENT/INVESTMENT PROMOTION II

8. ESTIMATED FY OF PROJECT COMPLETION: FY 83

9. ESTIMATED DATE OF OBLIGATION: A. INITIAL FY 79; B. QUARTER 3 (Enter 1, 2, 3, or 4); C. FINAL FY 82

10. ESTIMATED COSTS ($000 OR EQUIVALENT $1 =)

A. FUNDING SOURCE	FIRST FY B. FX	C. L/C	D. TOTAL	LIFE OF PROJECT E. FX	F. L/C	G. TOTAL
AID APPROPRIATED TOTAL	3950	4700	8650	4200	5600	9800
(GRANT)	(50)	(200)	(250)	(300)	(1100)	(1400)
(LOAN)	(3900)	(4500)	(8400)	(3900)	(4500)	(8400)
OTHER U.S. 1.						
OTHER U.S. 2.						
HOST COUNTRY CDB		90	90		510	510
OTHER DONOR(S)		330	330		2050	2050
TOTALS	3950	5120	9070	4200	8160	12360

11. PROPOSED BUDGET APPROPRIATED FUNDS ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	PRIMARY TECH. CODE C. GRANT	D. LOAN	E. 1ST FY 79 F. GRANT	G. LOAN	H. 2ND FY 80 I. GRANT	J. LOAN	K. 3RD FY 81 L. GRANT	M. LOAN
(1) SD	700-R	810	830	250	8400	400		400	
(2)									
(3)									
(4)									
			TOTALS	250	8400	400		400	

A. APPROPRIATION	N. 4TH FY 82 O. GRANT	P. LOAN	Q. 5TH FY ___ R. GRANT	S. LOAN	LIFE OF PROJECT T. GRANT	U. LOAN
(1) SD	350				1400	8400
(2)						
(3)						
(4)						
TOTALS	350				1400	8400

12. IN-DEPTH EVALUATION SCHEDULED: MM 12 YY 80

13. DATA CHANGE INDICATOR. WERE CHANGES MADE IN THE PID FACESHEET DATA, BLOCKS 12, 13, 14, OR 15 OR IN PRP FACESHEET DATA, BLOCK 12? IF YES, ATTACH CHANGED PID FACESHEET.

1 (1 = NO, 2 = YES)

14. ORIGINATING OFFICE CLEARANCE

SIGNATURE: William B. Wheeler

TITLE: AID Representative

DATE SIGNED: MM 06 DD 03 YY 79

15. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION: MM 06 DD 05 YY 79

AID 1330-4 (2-78)

5380018

A.I.D. Loan Number 538-W-012
Project Number 538-0018

PROJECT

LOAN AGREEMENT

BETWEEN

THE CARIBBEAN DEVELOPMENT BANK

and the

UNITED STATES OF AMERICA

for

MPLOYMENT/INVESTMENT PROMOTION II

FISCAL DATA

Appropriation No.:	72-1191021
Allotment:	946-65-538-00-68-91
Amount Obligated:	U.S. $8,400,000.00

DATED: June 29, 1979

Abstracted
Date 1/15/80
By KGT

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Project Loan Agreement

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Project Loan Standard

Provisions Annex

Project Loan Agreement

Dated June 29 , 1979

Between

The Caribbean Development Bank ("Borrower")

nd

The United States of America, acting through the Agency for International Development ("A.I.D.").

Article 1: The Agreement

The purpose of this Agreement is to set out the understandings of the parties named above ("Parties") with respect to the undertaking by the Borrower of the Project described below, and with respect to the financing of the Project by the Parties.

Article 2: The Project

SECTION 2.1. Definition of Project. The Project, which is further described in Annex 1, will stimulate increased investment in small and medium sized business enterprises in the Caribbean region. It will provide credits for programs of industrial estate construction, and for the financing of selected projects either through direct relending by the Borrower or relending by the Borrower through local financing entities. If necessary technical assistance will also be provided to financing entities or businesses through other project Grant funds. Annex 1 attached, amplifies the above definition of the Project.

Within the limits of the above definition of the Project, elements of the amplified description stated in Annex 1 may be changed by written agreement of the authorized representatives of the Parties named in Section 9.2, without formal amendment of this Agreement.

Article 3: Financing

SECTION 3.1. The Loan. To assist the Borrower to meet the costs of carrying out the Project, A.I.D., pursuant to the Foreign Assistance Act of 1961, as amended, agrees to lend the Borrower under the terms of this Agreement not to exceed Eight Million Four Hundred Thousand United States ("U.S.") dollars ($8,400,000) ("Loan"). The aggregate amount of disbursements under the Loan is referred to as "Principal".

Article 3: Financing (Continued)

The Loan may be used to finance foreign exchange costs, as defined in Section 7.1, and local currency costs, as defined in Section 7.2, of goods and services required for the Project.

SECTION 3.2. Borrower Resources for the Project

(a) The Borrower agrees to provide or cause to be provided for the Project all funds, in addition to the Loan, and all other resources required to carry out the Project effectively and in a timely manner.

(b) The resources provided by Borrower for the Project will be not less than the equivalent of U.S. $ 510,000, including costs borne on an "in-kind" basis.

SECTION 3.3. Project Assistance Completion Date

(a) The "Project Assistance Completion Date" (PACD), which is December 31, 1983, or such other date as the Parties may agree to in writing, is the date by which the Parties estimate that all services financed under the Loan will have been performed and all goods financed under the Loan will have been furnished for the Project as contemplated in this Agreement.

(b) Except as A.I.D. may otherwise agree in writing, A.I.D. will not issue or approve documentation which would authorize disbursement of the Loan for services performed subsequent to the PACD or for goods furnished for the Project, as contemplated in this Agreement, subsequent to the PACD.

TDPR - 12/31/83

(c) Requests for disbursement, accompanied by necessary supporting documentation prescribed in Project Implementation Letters, are to be received by A.I.D. or any bank described in Section 8.1. no later than nine (9) months following the PACD, or such other period as A.I.D. agrees to in writing. After such period, A.I.D., giving notice in writing to the Borrower, may at any time or times reduce the amount of the Loan by all or any part thereof for which requests for disbursement, accompanied by necessary supporting documentation prescribed in Project Implementation Letters, were not received before the expiration of said period. TDD - 9/30/84

Article 4: Loan Terms

SECTION 4.1. Interest. The Borrower will pay to A.I.D. interest which will accrue at the rate of two percent (2%) per annum for ten (10) years following the date of the first disbursement hereunder and at the rate of three percent (3%) per annum thereafter on the

Article 4: Loan Terms (Continued)

outstanding balance of Principal and on any due and unpaid interest. Interest on the outstanding balance will accrue from the date (as defined in Section 8.5) of each respective disbursement, and will be payable semiannually. The first payment of interest will be due and payable no later than six (6) months after the first disbursement hereunder, on a date to be specified by A.I.D.

SECTION 4.2. Repayment. The Borrower will repay to A.I.D. the Principal within forty (40) years from the date of the first disbursement of the Loan in sixty-one (61) approximately equal semiannual installments of principal and interest. The first installment of Principal will be payable nine and on-half (9-½) years after the date on which the first interest payment is due in accordance with Section 4.1. A.I.D. will provide the Borrower witn an amortization schedule in accordance with this Section after the final disbursement under the Loan.

SECTION 4.3. Application, Currency, and Place of Payment. All payments of interest and Principal hereunder will be made in U.S. Dollars and will be applied first to the payment of interest due and then to the repayment of Principal. Except as A.I.D. may otherwise specify in writing, payments will be made to the Controller, Office of Financial Management, Agency for International Development, Washington, D.C. 20523, U.S.A., and will be deemed made when received by the Office of Financial Management.

SECTION 4.4. Prepayment. Upon payment of all interest and any refunds then due, the Borrower may prepay, without penalty, all or any part of the Principal. Unless A.I.D. otherwise agrees in writing, any such prepayment will be applied to the installments of Principal in the inverse order of their maturity.

SECTION 4.5. Renegotiation of Terms

(a) The Borrower and A.I.D. agree to negotiate, at such time or times as either may request, an acceleration of the repayment of the Loan in the event that there is any significant and continuing improvement in the economic and financial position and prospects of the Borrower, taking into account the capital requirements of the Borrower.

(b) Any request by either Party to the other to so negotiate will be made pursuant to Section 9.1, and will give the name and address of the person or persons who will represent the requesting Party in such negotiations.

Article 4: Loan Terms (Continued)

(c) Within (30) days after delivery of a request to negotiate, the requested Party will communicate to the other, pursuant to Section 9.1, the name and address of the person or persons who will represent the requested Party in such negotiations.

(d) The representatives of the Parties will meet to carry on negotiations no later than thirty (30) days after delivery of the requested Party's communication under subsection (c). The negotiations will take place at a location mutually agreed upon by the representatives of the Parties, provided that, in the absence of mutual agreement, the negotiations will take place at the office of Borrower.

SECTION 4.6. Termination on Full Payment. Upon payment in full of the Principal and any accrued interest, this Agreement and all obligations of the Borrower and A.I.D. under it will cease.

Article 5: Conditions Precedent to Disbursement

SECTION 5.1. First Disbursement. Prior to the first disbursement under the Loan, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Borrower will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

(a) An opinion of counsel acceptable to A.I.D. that this Agreement has been duly authorized and/or ratified by, and executed on behalf of, the Borrower, and that it constitutes a valid and legally binding obligation of the Borrower in accordance with all of its terms;

(b) A statement of the name of the person holding or acting in the office of the Borrower specified in Section 9.2, and of any additional representatives, together with a specimen signature of each person specified in such statement.

(c) A description of the criteria to be used to determine the eligibility of lending institutions as intermediate lenders under the project.

SECTION 5.2. Additional Disbursement. Prior to disbursement under the Loan, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made to any secondary financial institution, the Borrower will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

(a) An evaluation of the institution by the Borrower with a specific finding as to the institution's viability and its ability to manage sub-loans; and

Article 5: Conditions Precedent to Disbursement (continued)

(b) A statement of the procedures and criteria against which the institution will appraise the technical, financial, and environmental soundness of the projects.

SECTION 5.3 Notification. When A.I.D. has determined that the conditions precedent specified in Section 5.1. and 5.2. have been met, it will promptly notify the Borrower.

SECTION 5.4 Terminal Dates for Conditions Precedent. If all of the conditions specified in Section 5.1 have not been met within 90 days from the date of this Agreement, or such later date as A.I.D. may agree to in writing, A.I.D., at its option, may terminate this Agreement by written notice to Borrower.

Article 6: Special Covenants

SECTION 6.1 Project Evaluation. The Parties agree to establish an evaluation program as part of the Project. Except as the Parties otherwise agree in writing, the program will include, during the implementation of the Project and at one or more points thereafter: (a) evaluation of progress toward attainment of the objectives of the Project; (b) identification and evaluation of problem areas or constraints which may inhibit such attainment: (c) assessment of how such information may be used to help overcome such problems; and (d) evaluation, to the degree feasible, of the overall development impact of the Project.

SECTION 6.2. Special Projects. Except as A.I.D. may otherwise agree in writing, borrower will covenant that:

(a) Individual sub-projects costing in excess of U.S. $500,000 will be submitted to A.I.D. for approval prior to their being financed under the Loan; and

(b) Prior to approval of financing by on-lending institutions for projects located in Jamaica, Borrower shall insure that financing is not available from Small Scale Enterprises (SSE) loan program being financed by the International Bank for Reconstruction and Development.

SECTION 6.3. Industrial Estates Except as A.I.D. may otherwise agree in writing, Borrower will covenant that:

(a) Prior to the approval of financing for an industrial estate project, the CDB will use its best efforts to establish with the sub-borrower a financial plan for management of the facility that includes minimum rental rates sufficient to cover loan debt service and maintenance.

(b) It will work actively towards the adoption of a common regional policy on industrial estates, particularly as regards the reduction or elimination of rental subsidies.

SECTION 6.4 Covenants For Use of Funds. Except as A.I.D. may otherwise agree in writing, Borrower will covenant that:

(a) It will provide in sub-lending agreements with intermediate credit institutions that project funds, including reflow, which are not used for project purposes within a reasonable period of time, shall be returned to the CDB for use on other aspects of the program. Funds repaid to the CDB shall be credited to CDB's Special Development Fund.

(b) It will use income from direct lending, over and above 3% for administrative costs and 2% allocation to reserves, from the interest spread on A.I.D. funds for technical assistance programs that will stimulate investment in small and medium business enterprises necessary to increase production and employment in the region.

Article 7: Procurement Source

SECTION 7.1. Foreign Exchange Costs. Disbursements pursuant to Section 8.1 will be used exclusively to finance the costs of goods and services required for the Project having their source and origin in countries included in Code 941 of the A.I.D. Geographic Code Book as in effect at the time orders are placed or contracts entered into for such goods and services ("Foreign Exchange Costs"), except as A.I.D. may otherwise agree in writing, and except as provided in the Project Loan Standard Provisions Annex, Section C.1 (b) with respect to marine insurance. Ocean transportation costs will be financed under the Loan only on vessels under flag registry of the United States except as A.I.D. may otherwise agree in writing. If A.I.D. determines either that there are no vessels under flag registry of the United States generally available for ocean transportation, or that Borrower has no access to U.S. flag service, A.I.D. in a Project Implementation Letter may agree to finance under the Loan ocean transportation costs on vessels under flag registry of another country.

SECTION 7.2. Local Currency Costs. Disbursements pursuant to Section 8.2 will be used exclusively to finance the costs of goods and services required for the Project having their source and, except as A.I.D. may otherwise agree in writing, their origin in the participating countries where the Project is located ("Local Currency Costs").

Article 8: Disbursements

SECTION 8.1. Disbursement for Foreign Exchange Costs

(a) After satisfaction of conditions precedent, the Borrower may obtain disbursements of funds under the Loan for the Foreign Exchange Costs of goods or services required for the Project in accordance with the terms of this Agreement, by such of the following methods as may be mutually agreed upon:

(1) by submitting to A.I.D., with necessary supporting documentation as prescribed in Project Implementation Letters, (A) requests for reimbursement for such goods or services, or (B) requests for A.I.D. to procure commodities or services in Borrower's behalf for the Project; or

(2) by requesting A.I.D. to issue Letters of Commitment for specified amounts (A) to one or more U.S. banks, satisfactory to A.I.D., committing A.I.D. to reimburse such bank or banks for payments made by them to contractors or suppliers, under Letter of Credit or otherwise, for such goods or services, or (B) directly to one or more contractors or suppliers, committing A.I.D. to pay such contractors or suppliers for such goods or services.

(b) Banking charges incurred by Borrower in connection with Letters of Commitment and Letters of Credit will be financed under the Loan unless the Borrower instructs A.I.D. to the contrary. Such other charges as the Parties may agree to may also be financed under the Loan.

SECTION 8.2. Disbursement for Local Currency Costs

(a) After satisfaction of conditions precedent, the Borrower may obtain disbursements of funds under the Loan for Local Currency Costs required for the Project in accordance with the terms of this Agreement, by submitting to A.I.D., with necessary supporting documentation as prescribed in Project Implementation Letters, requests to finance such costs.

(b) The local currency needed for such disbursement hereunder may be obtained:

(1) by acquisition by A.I.D. with U.S. dollars by purchase or from local currency already owned by the U.S. Government; or

(2) by A.I.D. (A) requesting the Borrower to make available the local currency for such costs, and (B) thereafter making available to the Borrower through the opening or amendment by A.I.D. of Special Letters of Credit in favor of the Borrower or its designee, an amount of U.S. Dollars equivalent to the amount of local currency made available by the Borrower, which dollars will be utilized for procurement from the United States under appropriate procedures described in Project Implementation Letters.

The U.S. dollar equivalent of the local currency made available hereunder will be, in the case of subsection (b) (1) above, the amount of U.S. dollars required by A.I.D. to obtain the local currency, and in the case of subsection (b) (2) above, an amount calculated at the rate of exchange specified in the applicable Special Letter of Credit Implementation Memorandum hereunder as of the date of the opening or amendment of the applicable Special Letter of Credit.

SECTION 8.3. Other Forms of Disbursement. Disbursements of the Loan may also be made through such other means as the Parties may agree to in writing.

SECTION 8.4. Rate of Exchange. Except as may be more specifically provided under Section 8.2, if funds provided under the Loan are introduced into a participating country by A.I.D. or any public or private agency for purposes of carrying out obligations of A.I.D. hereunder, the Borrower will make such arrangements as may be necessary so that such funds may be converted into currency of country at the highest rate of exchange which, at the time the conversion is made, is not then unlawful.

SECTION 8.5. Date of Disbursement. Disbursements by A.I.D. will be deemed to occur (a) on the date on which A.I.D. makes a disbursement to the Borrower or its designee, or to a bank, contractor

Article 8: Disbursements (Continued)

or supplier pursuant to a Letter of Commitment, contract, or purchase order; (b) on the date on which A.I.D. disburses to the Borrower or its disignee local currency acquired in accordance with Section 8.2(b)(1); or (c) if local currency is obtained in accordance with Section 8.2(b)(2), on the date on which A.I.D. opens or amends the Special Letter of Credit there referred to.

Article 9: Miscellaneous

SECTION 9.1. Communications. Any notice, request, document, or other communication submitted by either Party to the other under this Agreement will be in writing or by telegram or cable, and will be deemed duly given or sent when delivered to such party at the following address:

To the Borrower:

Mail Address:	Caribbean Development Bank P.O. Box 408 Wildey, St. Michael Barbados, West Indies ATTN: President
Alternate address for telegrams:	Caribank Telex WB 287

To A.I.D.:

Mail Address:	AID Representative C/o U.S. Embassy P.O. Box 302 Bridgetown, Barbados
Alternate Address for telegrams:	USAID/American Embassy Bridgetown, Barbados

All such communications will be in English, unless the Parties otherwise agree in writing. Other addresses may be substitued for the above upon the giving of notice. The Borrower, in addition, will provide the USAID Mission with a copy of each communication sent to A.I.D.

SECTION 9.2. Representatives. For all purposes relevant to this Agreement, the Borrower will be represented by the individual holding or acting in the office of President and A.I.D. will be represented by the individual holding or acting in the office of

Article 9: Miscellaneous (Continued)

AID Representative, each of whom, by written notice, may designate additional representatives for all purposes other than exercising the power under Section 2.1 to revise elements of the amplified description in Annex 1. The names of the representatives of the Borrower, with specimen signatures, will be provided to AID, which may accept as duly authorized any instrument signed by such representatives in implementation of this Agreement, until receipt of written notice of revocation of their authority.

SECTION 9.3 Standard Provisions Annex. A "Project Loan Standard Provisions Annex" (Annex 2) is attached to and forms part of this Agreement.

IN WITNESS WHEREOF, the Borrower and the United States of America, each acting through its duly authorized representative, have caused this Agreement to be signed in their names and delivered as of the day and year first above written.

UNITED STATES OF AMERICA

BY: Sally A. Shelton

Sally A. Shelton

TITLE: Ambassador of the United States of America

BY: William B. Wheeler

William B. Wheeler

TITLE: Representative, Agency for International Development

BORROWER

BY: William G. Demas

William G. Demas

TITLE: President, Caribbean Development Bank

Annex 1

PROJECT DESCRIPTION

I. Project Objectives

The purpose of the Employment/Investment Promotion Project ("Project") is to increase investment, employment and output of the manufacturing construction and service sectors of the LDC and MDC members 1/ of the Caribbean Development Bank (CDB). The Project supports the national and regional policies of these countries for expansion of productive employment in these sectors.

II. Summary Description

The Project will provide medium and long term credits to Caribbean small and medium industry and for industrial estates. The Project will be carried out by the CDB. The Project will provide continuing financing for both foreign exchange and local costs of sub-projects identified by the CDB in its effort to support Caribbean entrepreneurs. Eligible Project Activities include the following:

-- Direct Lending by the CDB for industrial enterprises and industrial estates. (AID loan funds).

-- On-Lending through financial intermediaries. (AID loan funds).

-- Technical Assistance. (AID grant funds).

It supports the research and technical assistance activities financed under the 1978 Employment/Investment Grant, AID Project 538-0013.

A. Direct Lending

Approximately $4.5 million of the proposed loan funds will be utilized for direct lending activities over the four-year period beginning in the Fall, 1979. The CDB will relend AID funds for industrial estate development and for expansion of the manufacturing, construction and service sectors. Loan proceeds may finance equipment, construction and working capital. Utilization of local construction services and resources will be encouraged.

Direct sub-loans utilizing AID funds will be made by the CDB only if the loan term is in excess of three years and the value is over $100,000. This lower limit is currently under review by the CDB and may be raised to $150,000.

1/ - The participating members for this project are the lesser developed countries (LDC's) - St. Vincent, St. Lucia, Dominica, Antigua, St. Kitts/Nevis/ Anguilla, Grenada, Belize, Montserrat, British Virgin Islands, Cayman Islands, Turks and Caicos Islands, and the More Developed Countries (MDC's) - Barbados, Guyana and Jamaica (subject to Section 6.2(b)).

In accor ance with existing CDB policy, interest rates charged to private sector borrowers will approximate market (commercial) lending rates on industrial loans. The interest rate on loans to Governments for productive enterprises or industrial estates will be 4%. Since these loans are to Governments and denominated in U.S. dollars, CDB's investment is protected by a de facto Government guarantee.

Because of their considerable indirect employment and income generating effects, it is anticipated that approximately U.S.$3.0 million will be utilized to expand industrial estates. Although rental subsidies are the norm in Caribbean industrial estates, such subsidies place added strain on Government budgets and absorb resources which might be utilized for industrial promotion, technical assistance or other activities which have greater value as investment incentives. In consonance with the IBRD recommendations and CDB previous initiatives, the CDB will endeavor to sharply reduce or eliminate these subsidies as soon as possible. The recommended minimum rental rate would be adequate to service the loan debt and provide adequate maintenance. A covenant to this loan indicates CDB's commitment to make every effort to harmonize industrial estate rental policy in the region among CDB Member Countries and to move toward a lowering of subsidies.

B. On-Lending Via Financial Intermediaries

This project activity is specifically directed at providing foreign and local funds in support of small and medium sized enterprises. The required AID loan funds are estimated at $3.9 million for the period 1979-82. The DFCs and Commercial Banks having access to CDB funds will be permitted to make sub-loans up to a maximum of U.S.$100,000 to a single enterprise. Sub-loans by both DFC's and private financial intermediaries would normally be for a minimum of three years and at interest rates approximating usual commercial bank lending rates.

All financial institutions seeking loan funds will be evaluated and qualified by the CDB. The CDB will not provide funds to a financial intermediary until it is satisfied that that institution can effectively manage the sub-loan program. If the intermediary requires reorganization or procedural modification, this is to be completed prior to eligibility.

The DFC's, which are Government owned, will be required to accept the full commercial risk on loans made with CDB/AID resources. Government guarantees will protect the CDB against foreign exchange as well as commercial risks in the event that a DFC should be unable to repay its debt.

In countries lacking a viable DFC, the CDB will establish an experimental or pilot on-lending program through one or more private or Government commercial banks, private DFCs, cooperative banks, or similarly qualified financial intermediaries. (Preliminary discussions on this experimental system have already been conducted with Government authorities and commercial banks in Guyana and received a favorable response). Under the proposed system, the CDB will lend to commercial banks provided that they (a) demonstrate their ability and willingness to utilize the funds in a manner consistent with project objectives, (b) are financially sound institutions, and (c) obtain a Government foreign exchange guarantee.

It is anticipated that the CDB will make funds available to such institutions at 4% and that Governments will receive a 1% fee for covering the foreign exchange risk. Banks are expected to on-lend at market rates, estimated presently to be 10-12%. This level of interest rate spread is expected to provide sufficient income to cover the greater cost of lending to smaller, more risky clients than has been the norm for these institutions. The minimum term for sub-loans will be three years, but the private financial intermediaries will be expected to allocate the bulk of this financing to medium and long term loans. They will also be expected to commit themselves to maintaining the industrial component of their present lending portfolios at present levels (as a percentage of portfolios) in order to assure that funds made available to industry under this program are additional.

Both public and private financial intermediaries will require financial rate of return calculations on sub-projects they finance. All sub-projects must be financially viable without subsidy. Sub-loans may be made for permanent working capital as well as fixed assets of small and medium enterprises. Working capital sub-loans will be restricted to those enterprises expanding their fixed assets (with or without the use of borrowed funds for this purpose) and to those enterprises requiring additional working capital to effect a major increase in equipment utilization (e.g. adopting a double shift or improving present usage). Financial intermediaries will be permitted to use up to 100% of CDB funds to cover their contribution to eligible sub-projects.

C. Technical Assistance

Although the 1978 Employment/Investment Promotion (EIP) grant project included funds for short term studies of the mechanisms needed to insure the provision of small business technical assistance on a continuing basis, the CDB has now determined that an outside study of this problem is not necessary and that the CDB, with the addition of local Small Business Advisors and strengthened DFCs, can identify and administer the needed technical assistanc The assistance needed to strengthen the DFCs will be provided through a development banking specialist (financed under the previous EIP grant) and short term assistance as needed.

In addition, there continues to be a need for on-site and in-country technical assistance to potential investors in loan preparation and implementation. At the present time, neither the CDB nor the financial institutions are staffed to provide the required technical assistance, nor does the FY 78 Institutional Development Grant provide the funding required for this purpose.

The technical assistance activities under this grant will thus be directed primarily at the user or potential user of the small industry credit funds in the LDC's. AID grant funds of $1.4 million are assigned to provide the technical assistance needed for project development and implementation. The bulk of these funds (approximately $0.8 million) will be used to provide Small Business Advisors (SBAs) who will be attached to each of the participating financial institutions. The main function of the SBA, however, will be to work outside the financial institution to assist its potential and actual clients. The assistance provided by the SBA will be augmented where possible with expertise to be tapped from the Peace Corps and the International Executive Service Corp (IESC.).

The remaining ! `0,000 of technical assistance funds will be utilized to provide specialized technical assistance directed at export promotion, industrial estate management and small business entrepreneurial support.

III. Sub-Project

Eligibility Criteria

To be eligible for financing under the loan program, investment projects must meet the following qualification tests:

- have a fixed investment/worker ratio of $10,000 or less in 1979 prices. This assumes that the capital has a useful life of 15 years and that plant costs are included in fixed investment. A significant variation in the expected life of the physical assets would require a corresponding adjustment to the $10,000 investment/job cut-off level.

- be financially viable as indicated by a minimum 12% rate of return on total investment (without subsidy). Exceptions may occasionally be permitted if CDB and AID concur that the project yields overriding social or employment benefits.

- industrial estates projects may be financed when satisfactory evidence of demand exists and when such projects are economically, technically and environmentally sound. Economic soundness analyses should take into account the effect of the project on national income and employment and on the Governments' fiscal situation.

Eligible sub-projects will include a wide variety of cottage, small, and medium scale manufacturing and service enterprises, including manufacturing enterprises (excluding the manufacture of spirits), and construction and transportation services, and other services such as vehicle repair shops, small scale tourism (excluding bars or casinos), and similar enterprises that generate employment, meet the above criteria, and have a positive impact on development.

IV. Financial Plan

Illustrative Source And Use Of Loan/Grant Funds

(US $ 000)

LOAN	AID	CDB	SUB-BORROWERS, DFCs, and GOVERNMENTS	TOTAL
Direct Lending				
Industrial Estates	3000	90	600	3690
Industrial Projects	1500	45	300	1845
	4500	135	900	5535

Financial Plan - cont'd

LOAN	AID	CDB	SUB-BORROWERS, DFCs, and GOVERNMENTS	TOTAL
On-Lending				
DFC's and Commercial Banks	3900	235	780	4915
Grant				
Small Business Advisors	800	100	370	1270
Speciality Technical Assistance	600	40	-	640
	1400	140	370	1910
Total Project	9800	510	2050	12360

V. Administration of the Program

The CDB will have primary responsibility for overall administration and coordination of program activities, including those of other Regional and national institutions involved in the implementation of sub-projects, in accordance with guidelines and criteria agreed to in advance by A.I.D.

Project Loan Standard

Provision Annex

Definitions: As used in this Annex, the "Agreement" refers to the Project Loan Agreement to which this Annex is attached and of which this Annex forms a part. Terms used in this Annex have the same meaning or reference as in the Agreement.

Article A: Project Implementation Letters. To assist Borrower in the implementation of the Project, A.I.D., from time to time, will issue Project Implementation Letters that will furnish additional information about matters stated in this Agreement. The parties may also use jointly agreed-upon Project Implementation Letters to confirm and record their mutual understanding on aspects of the implementation of this Agreement. Project Implementation Letters will not be used to amend the text of the Agreement, but can be used to record revisions or exceptions which are permitted by the Agreement, including the revision of elements of the amplified description of the Project in Annex 1.

Article B: General Covenants

SECTION B.1. Consultation. The Parties will cooperate to assure that the purpose of this Agreement will be accomplished. To this end, the Parties, at the request of either, will exchange views on the progress of the Project, the performance of obligations under this Agreement, the performance of any consultants, contractors, or suppliers engaged on the Project, and other matters relating to the Project.

SECTION B.2. Execution of Project. The Borrower will:

(a) carry out the Project or cause it to be carried out with due diligence and efficiency, in conformity with sound technical, financial, and management practices, and in conformity with those documents, plans, specifications, contracts schedules, or other arrangements, and with any modifications therein, approved by A.I.D. pursuant to this Agreement; and

(b) provide qualified and experienced management for, and train such staff as may be appropriate for the maintenance and operation of the Project, and, as applicable for continuing activities, cause the Project to be operated and maintained in such manner as to assure the continuing and successful achievement of the purposes of the Project.

SECTION B.3. Utilization of Goods and Services.

(a) Any resources financed under the Loan will, unless otherwise agreed in writing by A.I.D., be devoted to the Project until the completion of the Project, and thereafter will be used so as to further the objectives sought in carrying out the Project.

(b) Goods or services financed under the Loan, except as A.I.D. may otherwise agree in writing, will not be used to promote or assist a foreign aid project or activity associated with or financed by a country not included in Code 935 of the A.I.D. Geographic Code Book as in effect at the time of such use.

SECTION B.4. Taxation

(a) This Agreement and the Loan will be free from and the Principal and interest will be paid free from, any taxation or fees imposed under laws in effect in the country in which the principal office of the Borrower is located.

(b) To the extent that (1) any contractor, including any consulting firm, and personnel of such contractor financed under the Loan, and any property or transactions relating to such contracts and (2) any commodity procurement transaction financed under the Loan are not exempt from identifiable taxes, tariffs, duties, or other levies imposed under laws in effect in the country in which the principal office of the Borrower is located, the Borrower will, as and to the extent provided in and pursuant to Project Implementation Letters, pay or reimburse the same with funds other than those provided under the Loan.

SECTION B.5. Reports, Records, Inspections, Audit.

The Borrower will:

(a) furnish A.I.D. such information and reports relating to the Project and to this Agreement as A.I.D. may reasonably request;

(b) maintain or cause to be maintained, in accordance with generally accepted accounting principles and practices consistently applied, books and records relating to the Project and to this Agreement, adequate to show, without limitation, the receipt and use of goods and services acquired under the Loan. Such books and records will be audited regularly, in accordance with generally accepted auditing standards, and maintained for three years after the date of last disbursement by A.I.D., such books and records will also be adequate to show the nature and extent of solicitations of prospective suppliers of goods and services acquired, the basis of award of contracts and orders, and the overall progress of the Project toward completion ; and

(c) afford authorized representatives of a Party the opportunity at all reasonable times to inspect the Project, the utilization of goods and services financed by such Party, and books, records, and other documents relating to the Project and the Loan. In this regard the Borrower agrees to make such

SECTION B.5. (c)

actions as may be necessary to permit such inspection within the territory of any of its member nations participating under this Agreement.

SECTION B.6. Completeness of Information. The Borrower confirms:

(a) that the facts and circumstances of which it has informed A.I.D., or caused A.I.D. to be informed, in the course of reaching agreement with A.I.D. on the Loan, are accurate and complete, and include all facts and circumstances that might materially affect the Project and the discharge of responsibilities under this Agreement;

(b) that it will inform A.I.D., in timely fashion of any subsequent facts and circumstances that might materially affect, or that it is reasonable to believe might so affect, the Project or the discharge of responsibilities under the Agreement.

SECTION B.7. Other Payments. Borrower affirms that no payments have been or will be received by any official of the Borrower in connection with the procurement of goods or services financed under the Loan except fees, taxes, or similar payments legally established in the country of the Borrower.

SECTION B.8. Information and Marking. The Borrower will give appropriate publicity to the Loan and the Project as a program to which the United States has contributed, identify the Project site, and mark goods financed by A.I.D., as described in Project Implementation Letters.

Article C: Procurement Provisions

SECTION C.1. Special Rules.

(a) The source and origin of ocean and air shipping will be deemed to be the ocean vessels or aircraft's country of registry at the time of shipment.

(b) Premiums for marine insurance placed in the territory of this Borrower will be deemed an eligible Foreign Exchange Cost, if otherwise eligible under Section C.7 (a).

(c) Any motor vehicles financed under the Loan will be of United States manufacture, except as A.I.D. may otherwise agree in writing.

SECTION C.2. Eligibility Date. No goods or services may be financed under the Loan which are procured pursuant to orders or contracts firmly placed or entered into prior to the date of this Agreement, except as the Parties may otherwise agree in writing.

SECTION C.3. Plans, Specifications, and Contracts. In order for there to be mutual agreement on the following matters, and except as the Parties may otherwise agree in writing:

(a) The Borrower will furnish to A.I.D. upon preparation:

(1) any plans, specifications, procurement or construction schedules, contracts, or other documentation relating to goods or services to be financed under the loan, including documentation relating to the prequalification and selection of contractors and to the solicitation of bids and proposals. Material modifications in such documentation will likewise be furnished A.I.D. on preparation;

(2) such documentation will also be furnished to A.I.D. upon preparation, relating to any goods or services which, though not financed under the Loan, are deemed by A.I.D. to be of major importance to the Project. Aspects of Project involving matters under this subsection (a) (2) will be identified in Project Implementation Letters;

(b) Documents related to the prequalification of contractors and to the solicitation of bids or proposals for goods and services financed under the Loan will be approved by A.I.D. in writing prior to their issuance, and their terms will include United States standards and measurements;

(c) Contracts and contractors financed under the Loan for engineering and other professional services, for construction services, and for such other services, equipment, or materials as may be specified in Project Implementation Letters, will be approved by A.I.D. in writing prior to execution of the contract. Material modifications in such contracts will also be approved in writing by A.I.D. prior to execution; and

(d) Consulting firms used by the Borrower for the Project but not financed under the Loan, the scope of their services and such of their personnel assigned to the Project as A.I.D. may specify, and construction contractors used by the Borrower for the Project but not financed under the Loan shall be acceptable to A.I.D.

SECTION C.4. Reasonable Price. No more than reasonable prices will be paid for any goods or services financed, in whole or in part, under the Loan. Such items will be procured on a fair and, to be maximum extend practicable, on a competitive basis.

SECTION C.5. Notification to Potential Suppliers. To permit all United States firms to have the opportunity to particpate in furnishing goods and services to be financed under the Loan, the Borrower will furnish A.I.D. such information with regard thereto, and at such times, as A.I.D. may request in Project Implementation Letters.

SECTION C.6. Shipping.

(a) Goods which are to be transported to the territory of any

Participating Country may not be financed under the Loan if transported either:

(1) on an ocean vessel or aircraft under the flag of a country which is not included in A.I.D. Geographic Code 935 as in effect at the time of shipment; or

(2) on an ocean vessel which A.I.D., by written notice to the Borrower has designated as ineligible; or

(3) under an ocean or air charter which has not received prior A.I.D. approval.

(b) Costs of ocean or air transportation (of goods or persons) and related delivery services may not be financed under the Loan, if such goods or persons are carried:

(1) on an ocean vessel under the flag of a country not, at the time of shipment, identified under the paragraph of the Agreement entitled "Procurement Source: Foreign Exchange Costs," without prior written A.I.D. approval; or

(2) on an ocean vessel which A.I.D., by written notice to the Borrower, has designated as ineligible; or

(3) under an ocean vessel or air charter which has not received prior A.I.D. approval.

(c) Unless A.I.D. determines that privately owned United States-flag commercial ocean vessels are not available at fair and reasonable rates for such vessels,

(1) at least fifty percent (50%) of the gross tonnage of all goods (computed separately for dry bulk carriers, dry cargo liners and tankers) financed by A.I.D. which may be transported on ocean vessels will be transported on privately owned United States-flag comercial vessels, and

(2) at least fifty percent (50%) of the gross freight revenue generated by all shipments financed by A.I.D. and transported to the territory of the Borrower on dry cargo liners shall be paid to or for the benefit of privately owned United States-flag comerical vessels. Compliance with the requirements of (1) and (2) of this subsection must be achieved with respect to any cargo transported from U.S. ports and also any cargo transported from non-U.S. ports, computed separately.

SECTION C.7. Insurance.

(a) Marine insurance on goods financed by A.I.D which are to be transported to the territory of any Participating Country be financed as a Foreign Exchange Cost under this Agreement provided,

SECTION C.7.

(a) (1) such insurance is placed at the lowest available competitive rate, and

(2) claims thereunder are payable in the currency in which such goods were financed or in any freely convertible currency. If the Borrower (or government of any Participating Country by statute, decree, rule, regulation or practice discriminates with respect to A.I.D. - financed procurement against any marine insurance company authorized to do business in any State of the United States, then all goods shipped to the territory of the Participating Country financed by A.I.D. hereunder will be insured against marine risks and such insurance will be placed in the United States with a company or companies authorized to do a marine insurance business in a State of the United States.

(b) Except as A.I.D. may otherwise agree in writing, the Borrower will insure, or caused to be insured, goods financed under the Loan imported for the Project against risks incident to their transit to the point of their use in the Project; such insurance will beissued on terms and conditions consistent with sound commercial practice and will insure the full value of the goods. Any indemnification received by the Borrower or Participating Country under such insurance will be used to replace or repair any material damage or any loss of the goods insured or will be used to reimburse the Borrower or Participating Country for the replacement or repair of such goods. Any such replacement will be of source and origin of countries listed in A.I.D. Geographic Code 935 as in effect at the time of replacement, and, except as the Parties may agree in writing, will be otherwise subject to the provisions of the Agreement.

SECTION C.8. U.S. Government-Owned Excess Property. The Borrower agrees that wherever practicable United States Government-owned excess personal property, in lieu of new items financed under the Loan, should be utilized. Funds under the Loan may be used to finance the costs of obtaining such property for the Project.

ARTICLE D. Termination; Remedies.

SECTION D.1. Cancellation by Borrower. The Borrower may, by giving A.I.D. 30 days written notice, cancel any part of the Loan which has not been disbursed or committed for disbursement to third parties.

SECTION D.2. Events of Default; Acceleration. It will be an "Event of Default" if Borrower shall have failed:

SECTION D.2.

(a) to pay when due any interest or installment of Principal required under this Agreement, or

(b) to comply with any other provision of this Agreement, or

(c) to pay when due any interest or installment of Principal or other payment required under any other loan, guaranty or other agreement between the Borrower or any of its agencies and A.I.D. or any of its predecessor agencies. If an event of Default shall have occured, then A.I.D. may give the Borrower notice that all or any part of this unrepaid Principal will be due and payable sixty (60) days thereafter, and, unless such Event of Default is cured within that time:

(1) such unrepaid Principal and accrued interest hereunder will be due and payable immediately, and

(2) the amount of any further disbursements made pursuant to then outstanding commitments to third parties or otherwise will become due and payable as soon as made.

SECTION D.3. Suspension. If at any time:

(a) An event of default has occurred; on

(b) An event occurs that A.I.D. determines to be an extraordinary situation that makes it improbable either that the purpose of the Loan will be attained or that the Borrower will be able to perform its obligations under this Agreement;

(c) Any disbursement by A.I.D. would be in violation of the legislation governing A.I.D.; or

(d) The Borrower shall have failed to pay when due any interest , installment of principal or other payment required under any other Loan, guaranty, or other agreement between the Borrower or any of its agencies and the Government of the United States or any of its agencies;

Then A.I.D. may:

(1) suspend or cancel outstanding commitment documents to the extent they have not been utilized through irrevocable commitments to third parties or otherwise, giving prompt notice thereof to the Borrower;

(2) decline to issue additional commitment documents or to make disbursements other than under existing ones; and

(3) at A.I.D.'s expense, direct that title to goods financed under the Loan be transferred to A.I.D. if the goods are from a source outside Borrower's territory are in a deliverable state and have not been offloaded in ports of entry of Borrower's territory. Any disbursement made under the Loan with respect to such transferred goods will be deducted from Principal.

SECTION D.4. Cancellation by A.I.D. If, within sixty (60) days from the date of any suspension of disbursements pursuant to Section D.3, the cause or causes thereof have not been corrected, A.I.D. may cancel any part of the Loan that is not then disbursed or irrevocably committed to third parties.

SECTION D.5. Continued Effectiveness of Agreement. Notwithstanding any cancellation , suspension of disbursements, or acceleration of repayment, the provisions of this Agreement will continue in effect until the payment in full of all Principal and accrued interest hereunder.

SECTION D.6. Refunds.

(a) In the case of any disbursement which is not supported by valid documentation in accordance with this Agreeemnt, or which is not made or used in accordance with this Agreement, or which was for goods or services not used in accordance with this Agreement, A.I.D., notwithstanding the availability or exercise of any other remedies provided for under this Agreement, may require the Borrower to refund the amount of such disbursement in United States Dollars to A.I.D. within sixty (60) days after receipt of a request therefor. The right to require such a refund of a disbursement will continue, notwithstanding any other provision of this Agreement, for three (3) years from the date of the last disbursement under this Agreement.

(b) (1) Any refund under the preceding subsection, or

(2) any refund to A.I.D. from a contractor, supplier, bank, or other third party with respect to goods or services financed under the Loan, which refund relates to an unreasonable price for or erroneous invoicing of goods or services, or to goods that did not conform to specifications, or to services that were inadequate, will,

A. be made available first for the cost of goods, and services required for the Project, to the extent justified, and

B. the remainder, if any, will be applied to the installments of Principal in the inverse order of their maturity and the amount of the loan reduced by the amount of such remainder.

SECTION D.7. Nonwaiver of Remedies. No delay in exercising any right or remedy accruing to a Party in connection with its financing under this Agreement will be construed as a waiver of such right.