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MEMORANDUM

311-25509

March 18, 1974

Handwritten: [Signature]
[Signature]
001.006.01

TO : LA/DR, Mr. Richard M. Seifman
FROM : LA/DR, Ronald F. Venezia *RFV*
SUBJECT: Trip Report - Caribbean Development Bank

PO-APP-740

001

Handwritten: Caribbean Regional Review

Attached is a copy of the final communique prepared by me, discussed and then issued at the end of the week review of the CDB/AID portfolio. It summarizes the major issues addressed and will become part of the project documentation for reference use annually. Also, separate technical reports are attached.

This exercise was the first of its kind for the CDB and was clearly experimental in duration and design. My conclusion, shared by my A.I.D. colleagues and the several comments made by CDB staff, was that the nature of the review was perhaps the only possible way to review the entire portfolio at one annual session.

The major problem at the CDB remains the hiatus in leadership, soon to be resolved with the appointment of Mr. Demas from CARICOM. The general feeling among CDB staff was that Roy Jones had not provided spirited leadership during his short tenure, with several commenting that it was rather remarkable that the CDB had continued operating after Sir Arthur Lewis left last October. Given this lack of firm direction at the top, the review naturally concentrated on implementation problems and a rather extensive discussion of the various sub-sectors which A.I.D. supports with its funds.

There remains to be done an internal A.I.D. document which will identify the major policy issues that will be addressed by Messrs. Kleine and Breen with Demas after the latter takes office in late April. I will prepare that in the near future.

Attachment - a/s

RECORD COPY

- 1 -

FINAL REVIEW - USAID LOANS

Friday, March 1, 1974

Present:

Mr. C. Sorhaindo	}	CDB
Mr. R. Robinson		
Mr. A. Wason		
Dr. B. Yankey		
Mr. B. Gouveia		
Mr. N. Venner		
Mr. R. Grutsch		
Mr. A. Maynard		
Mr. R. Venezia	}	AID
Mr. J. Cooperman		
Mr. H. Robinson		
Mr. J. Hawes		
Mr. E. Featherstone	-	U.S. Embassy

A. GENERAL IMPLEMENTATION PROBLEMS

1. The CDBs proposed revised guidelines for procurement will establish US\$50,000 as the minimum for international advertising. AID procurement guidelines requires such advertising over US\$5,000 (with the exception for conventional buildings up to US\$25,000). The CDB will request that AID revise its guidelines to conform to CDB overall practices on procurement of goods and services.

Action:

CDB will formally request this action. AID/W will respond in near future.

2. The Letter of Credit Procedure is proving cumbersome on small transactions, with some suppliers refusing to fill out AID form 282 for small orders. This is especially true in Small Industrial Credit program where equipment purchases are very small and from many suppliers. The CDB proposes waiving use of AID form 282 on transactions of less than US\$5,000. They also request waiver of Letters of Credit requirement for purchases under US\$5,000.

Action:

CDB will request this action. AID/W will respond in near future.

3. The CDB presently enjoys a general source/origin waiver of US\$2,500. Given inflation and general increase of costs, this limit has proved impractical, especially in the Small Industrial Credit Program where US suppliers cannot meet (or sometimes widely exceed) specifications for small industrial, cottage industry, equipment. The CDB requests that this waiver be increased to US\$5,000.

Action:

CDB will formally request this action. AID/W will respond in near future.

4. The CDB has construed AIDs shipping regulations to require 50/50 US and foreign carrier use, and has generally refused payment where this could not be demonstrated. Discussion with CDB staff has shown, however, that Letter of Implementation No. 1, interpreted literally, removes all requirements of shipping from the CDB.

Action:

CDB will formally request clarification. AID/W will respond in near future.

5. The CDB has been receiving AID disbursements for local currency in US dollar checks. This does not conform to the Loan Agreement and, in practice, AID regulations.

Action:

CDB will request disbursements for local currency to be made in EC dollars. AID will disburse such checks in that currency.

6. Present Letter of Commitment of US\$1 million does not include mutual untying provision agreed to after it was issued. Bank of America is withholding payment on otherwise eligible goods.

Action:

AID/W will amend L/C in immediate future.

B. COST INCREASES

1. The CDB is experiencing added costs to its already approved projects due to general inflation and submission of final bids on infrastructure projects.

Action:

The CDB will evaluate each case on its own merits. In those cases where original benefit/cost relationships have been determined, and where an additional sub-loan utilizing AID resources is contemplated, the CDB will assure that the additional costs do not seriously alter the original projections and the economic viability of the project. AID for those projects whose original cost exceeds US\$500,000 will upon consultation with the CDB, study each proposal on its merits and concur in writing.

C. DISBURSEMENTS

1. Present projections show disbursements of AID loan 538-L-001 extending thru 1976. This will require an extension of the terminal Date of Disbursement (now 12/31/75). The terminal Date of Commitment (now 6/30/75) may not need such an extension as all of 001 funds have been approved by the CDB for sub-projects and those funds may be already under commitment documents (i.e. Letters of Credit, Disbursing Authorizations, etc.) by that date.

Action:

AID/W and the CDB should closely view rates of disbursement. No action in near future re extension of TDD or TDC is needed.

2. Several projects have been approved by the CDB for several years with no firm action yet to be taken by the sub-borrower to implement the project.

Action:

CDB may wish to develop criteria which establishes cut-off date for sub-loan commitment, thereby freeing such resources for reprogramming. The CDB may wish to have a requirement of first disbursement within 1 year of Board approval.

D. PORTFOLIO EVALUATION

1. AID Loan 538-L-001 is now fully committed and is in process of implementation. It is recognized that this task is fully utilizing the present CDB staff. There remains, however, the problem of assessing the final impact of these loans (and overall CDB operations) on the sub-borrowers and the individuals and institutions affected.

Action:

AID asked if, a) can the CDB incorporate an evaluation element within its sub-loans; b) are technical assistance funds available to begin a series of evaluation studies (to commence as appropriate, i.e. as projects are completed) which will feed back information and relevant experience to the CDB.

CDB stated that while no specific evaluation criteria was written into the project appraisal, there were quarterly project reviews and an annual review mission of SIC and FIC projects. It would be possible to determine evaluation criteria to measure the impact of the programs on the economy of the countries benefitting from the loans. CDB staff thought there was no need for technical aid in this regard.

E. NEW COMMITMENTS

When undertaking Commitments for loan 538-L-003, it is understood that the CDB will provide follow-on as necessary to those on-going activities in SIC and agriculture already started under 001.

Action:

In assigning sub-projects to various CDB donors, the CDB will continue to stress the use of AID funds to those projects which directly affect the lower income groups served by the sub-borrowers. AID understands that given the relative lack of infrastructure in the LDCs, considerable expenditure in this area is still a necessity; however, such projects should be clearly related to the attainment of larger goals which directly and positively affect employment and production in the region.

F. SUB-PROJECT DISCUSSIONS

(Each area will be covered separately by the respective AID/CDB staff)

1. Ports
2. Industrial Estates
3. Electricity (Mr. Cooperman to visit Belize)
4. Land Settlement
5. Small Industrial Credit
6. Housing

1. Ports. AID is concerned about the high cost of the Dominica Port and suggested consideration of construction of one berth rather than two as proposed.

CDB indicated that the project was appraised on the basis of two berths and on the basis of present costs and benefits the project is still acceptable. CDB staff is keeping the project under review to ensure that the port is financially viable and economically feasible.

2. Industrial Estates. AID asked about CDB policy on the construction of industrial estates. CDB staff indicated that the intention is to provide finance for one small factory building of 6,000 sq. ft. in each territory and to provide further financing as required for construction of more factory space. CDB must be satisfied that the demand for the factory space exists before financing any further factory space.

4. Land Settlement. The projects in Antigua and St. Kitts were visited by AID. No problems exist with the implementation of the Antigua project. There is a U.K. financed project manager on the program and the project is progressing satisfactorily. AID commented that it might be useful however to develop as cattle farms lands not suited for crop production, as it seemed that the land being used in Antigua is suited to food crops.

AID indicated a concern over the large W.I. import bill for food, and suggested that the CDB pay special attention to food production.

AID also indicated that St. Kitts appears to be suited for pineapple production and suggested investigation into this.

CDB staff explained that the land settlement project in St. Lucia will protect some of the water catchment areas of St. Lucia by proper grading and terracing of the slopes and establishment of tree crops and other selected crops. The emphasis on the scheme is assembling economic parcels of land under a central management authority for proper agricultural production.

AID Agricultural expert will visit Belize to look at the Banana project.

5. Small Industrial Credit.

- 1) The SIC program is perhaps the most active sub-project area now supported by AID funds. Therefore, it serves to identify trends and problems for the CDB, AID and the sub-borrowers.

- 2) Job creation thru the program is expected to exceed 2,000 new jobs at an average cost of approximately US\$4,000/5,000 per job per amount of loan. Hopefully, this figure can be reduced as the project matures.

Action:

The CDB should seek to stress those SIC projects which promote added employment.

- 3) Pace of project development has been slowed due to procedural problems of AID procurement regulations (hopefully to be solved in near future - see General Implementation Section) and still to be resolved staffing problems in the development corporations. Several of these need either full-time or supplemental manpower to function effectively.

Action:

CIDA has indicated that it has a fund of US\$400,000 to supply expatriate expert personnel to the region. Might the CDB provide a full technical briefing of the SIC program to CIDA and solicitate their support for critical vacancies in selected development corporations?:

CDB staff indicated that the CIDA program is a bilateral aid program and each territory has been notified of the availability of funds for provision of project managers. The program is a new one but CDB staff will urge territories to make use of the CIDA funding.

- 4) The SIC program is presently staffed by two UNDP SILOs. The UNDP funding (for this activity) will possibly phase

down and out in 1975. Assuming the CDB intends to continue this program, provision might be made at an early date to find and employ personnel from the area who can continue the program.

Action:

CDB should determine at what date it is prudent to phase-in CDB staff into the SIC program.

- 5) The pace and diversity of the SIC program requires extensive field activity and the actual approval of a CDB SIC officer on each individual project. This may, in the near future, prove unworkable.

Action:

The present CDB system of having an agricultural or engineering field officer might be extended to the SIC program. Related to this need is the increasing burden on CDB staff for design, specification and purchasing functions. The CDB should ensure that its staffing reflects the need in this area.

- 6) Present rules and regulations of the SIC program do not seem overly restrictive as to maximum net worth (EC\$100,000) etc., but the creation of new institutions in the area (CIC, CARICOM, etc.) may require some modifications.

Action:

The CDB should review its SIC rules and regulations to seek greater co-ordination with regional industrial schemes. AID, for its part, has no objections to widening of the SIC program.

6. Housing

PROBLEMS

I. STAFF

The Bank is relying on one AID-funded Secondary Market consultant from FNMA, and the part-time involvement of a member of the Legal Staff, for the secondary market program; and one limited tenure UNDP housing officer and two AID funded contract technicians to administer the low income housing programme. AID feels that the major problem administratively is the lack of CDB staff to administer the programs. CDB has provided in the 1974 budget for the Housing Officer on a permanent basis.

At the time of negotiation of the loan, CDB wanted AID to help staff its organization. CDB was advised that as a matter of policy AID could not staff the CDB but agreed to provide grant-funded US personnel on a contract basis to (a) provide consultant advice to the secondary housing program, and (b) assist in the low income housing program, supporting or supported by, a UNDP low income housing expert. AID also agreed to add \$300,000 of concessional loan money so that the CDB could obtain additional contractual personnel.

a) Secondary Market. Once the FNMA consultant leaves, (possibly at the end of March), only the limited availability of the Legal Officer will be left to carry on a long term complex program. It was agreed that there is need for a CDB Home Mortgage Administrator, assisted by accounting and supporting administrative staff. The need for such people is now, while the FNMA consultant is still available for indoctrination. CDB staff agrees with this

position and intends to discuss with the President the recruitment of a Home Mortgage Officer (based on the job description to be prepared by Mr. Ralph Grutsch). CDB will also make accountant services available.

AID has recruited, through FNMA, a short-term accountant experienced in yield projections to spend a minimum of two weeks with CDB. CDB will have available persons with whom the yield accountant can work.

b) Low Income Housing. In effect, the CDB has three people engaged in administering the low income housing program. CDB has decided to continue to utilize the UNDP personnel as its Chief Housing Officer. Pending discussion with FCH, and AID/W review of the policy referred to on page 10, FCH personnel assigned to the project will operate under the jurisdiction of CDB's Housing Officer.

II. CDB POLICY

a) Secondary Market. The FNMA Consultant, working with CDB Legal Counsel, has developed Guidelines for the Secondary Market. However, since CDB Board action has not been taken, delay in implementation will necessarily result. The FNMA Consultant is not in a position because of lack of CDB Board approval to carry on with the program as earlier anticipated. Negotiations are under way with FNMA to nominate a "yield" and accounting expert for a minimum of two weeks. His arrival should be as soon as possible so that during this hiatus the FNMA Consultant's time can be utilized with them.

The CDB will forward the Guidelines to AID for its preliminary approval subject to subsequent Bank Board approval. AID requests that approving action be taken at the next Board meeting. This,

at least, will assure early implementation action on Bank Board action on the Guidelines. The only comments AID would have on the Guidelines is that the reference to yield clearly indicate that yields change and that the CDB yield be predicated at the beginning, to the extent possible, on future estimated borrowings. The other comment is that it be clear that the system is to service "private" sellers.

AID requested that if the CDB proposes to use Government financial institutions as a channel for secondary mortgages, they would wish to be consulted before a formal decision is taken.

b) Low Income Housing. CDB policy establishes local government action that may be unrealistic and impossible of achievement. Where local government funds are not available, CDB should consider loans which include infrastructure.

CDB is considering making a request to AID/W to vary the intents of BD 68/72 to allow:-

- a) Loans for infrastructure.
- b) Raising the cost ceiling in keeping with increases in incomes.
- c) Varying solutions to the provision of housing for the lowest income groups.

CDB staff will prepare a paper for the April board meeting and this paper will be submitted to AID in draft for preliminary approval.