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INDUSTRIAL INVESTMENT PROMOTION

DP/CAR/74/006

CARIBBEAN

Technical report: Review of the policies, activities and internal organization of the Caribbean Investment Corporation.

Prepared for the Caribbean Investment Corporation  
by the United Nations Industrial Development Organization,  
executing agency for the United Nations Development Programme

Based on the work of G.E. Reuss, management consultant

United Nations Industrial Development Organization  
Vienna

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### Explanatory notes

References to dollars (\$) are to United States dollars, unless otherwise stated.

The monetary unit in the East Caribbean is the East Caribbean dollar (\$EC). During the period covered by the report, the value of the \$EC in relation to the United States dollar was \$US 1 = \$EC 2.70.

The following abbreviations are used in this document:

CDB	Caribbean Development Bank
CDC	Commonwealth Development Corporation
CFTC	Commonwealth Fund for Technical Co-operation
CIC	Caribbean Investment Corporation
CIDA	Canadian International Development Agency
DEG	German Development Corporation
ECCM	East Caribbean Common Market

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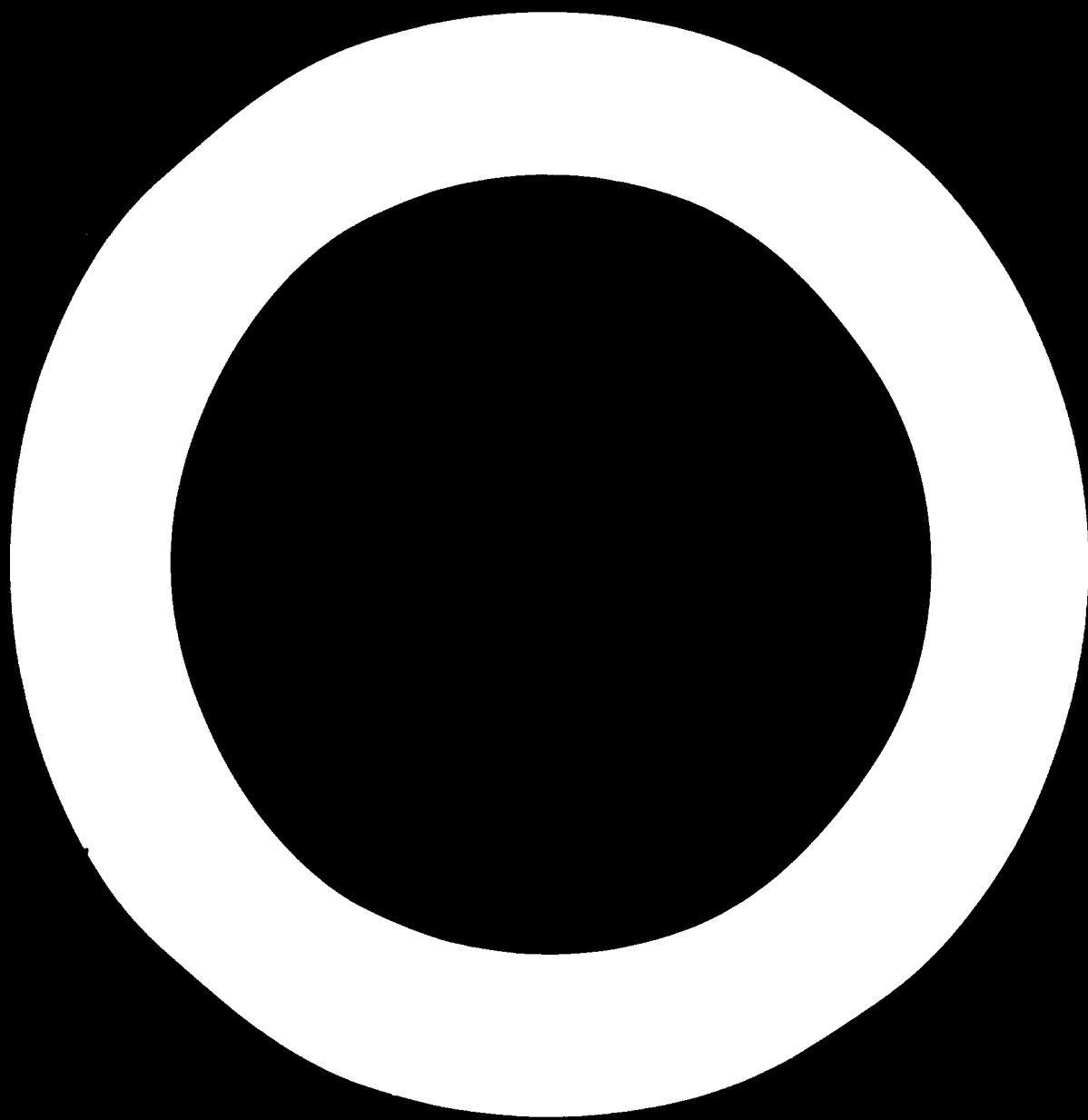
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ABSTRACT

This is the report of the management consultant on his third mission assigned to the project "Industrial Investment Promotion" (DP/CAR/74/006). The report on two previous missions was issued in April 1977 (DP/ID/SER.A/102).

In this report the consultant reviews the progress made since his previous missions and describes the present organizational and functional priorities of the Caribbean Investment Corporation. His recommendations relate to corporate objectives and investment policy, project promotion activities, project evaluation procedures, investment management and internal organization.



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## INTRODUCTION

This is the report of a mission forming part of the project "Industrial Investment Promotion" (DP/CAR/74/006).

It covers the third mission of the consultant in a programme to assist and advise the top management and the Board of Directors of the Caribbean Investment Corporation (CIC). The first report (submitted in May 1976) concerned matters of corporate strategy and investment policy. The second report (submitted in December 1976) focused on a wide range of operational aspects of CIC and on the setting of programme development priorities. This report reviews progress made, items pending and the present organizational and functional priorities of CIC.

Work on this assignment was greatly facilitated by the close co-operation provided by the General Manager and Chief Executive of CIC, by the CIC executives and by the UNIDO personnel.

Progress on the major priorities established in May and December 1976 has been very encouraging, especially regarding project development, expansion of UNIDO assistance, and negotiations on financing facilities for CIC.

The present report addresses itself initially to the follow-up still required on corporate strategy and investment policy and on project promotion and project evaluation procedures.

The main focus however, is on the recommendations on investment control, project monitoring and internal organization which, in the consultant's view, are the top operational priorities of CIC at the present time.

## I. SUMMARY OF RECOMMENDATIONS

The following are the consultant's recommendations relating to corporate objectives and investment policy, project promoting, project evaluation, investment management and internal organization.

### Corporate objectives and investment policy

1. To increase private sector equity participation in CIC to the originally planned level.
2. To create flexibility for lending operations of CIC.
3. To institute minority protection rights for investments made by CIC.
4. To change CIC policy and accounting procedures for stock dividends received from investee companies.

### Protection promotion activities

1. To pursue, through to their realization, the projects of the 1976 action programme which are presently being evaluated and carried out.
2. To look into possibilities of duplication on the other islands for some small locally based projects.
3. To activate "dormant" projects.
4. To accelerate the projected internal staffing of project development activities.
5. To follow up and review project development activities systematically.

### Project evaluation procedures

1. To identify and evaluate critical factors as a normal part of project presentation.
2. To execute sensitivity analysis of project returns and cash flow in response to variations in critical factors.
3. To present summaries of assumptions used in preparing financial projections.
4. To distribute investment documents to CIC Board Members earlier than is the practice.
5. To compare actual performance of investments with original projections.
6. To formalize pre-disbursement controls.



Investment management

1. To systematize investment control procedures by:  
information.
  - (a) Control and follow-up on receipt of financial and operating information;
  - (b) Regular reminders and follow-up;
  - (c) Standardization of financial information;
  - (d) Comparison of actual versus forecast results;
  - (e) Introduction of budgetary control systems for operating companies.
2. To implement project monitoring system.
3. To initiate crisis management systems and capabilities for projects in trouble, as follows:
  - (a) To organize trouble-shooting on a continuous basis;
  - (b) To place crisis management responsibility in one senior officer of CIC;
  - (c) To prepare formal action plans on each troublesome investment;
  - (d) To summarize actual position in each case for top management in the form of a "red list";
  - (e) To obtain the collaboration of senior experienced business executives on each island as senior advisers to CIC.
4. To design training and orientation programmes for the management of CIC operating investments on financial and operating controls and reporting.

Internal organization

1. To complete the staffing programme of UNIDO and CIDA.
2. To provide, at the earliest possible date, capable counterpart staffing in CIC.
3. To reduce, for the time being, the secondment of CIC personnel to international seminars and courses.
4. To provide closer top management guidance to CIC expatriate and counterpart staff on:
  - (a) Orientation of project development activities;
  - (b) Priorities in project evaluation and appraisal;
  - (c) Implementation of monitoring system;

- (d) Implementation of investment control systems;
- (e) Crisis management orientation and action plans;
- (f) Co-ordinated use and direction of United Nations and Commonwealth Fund for Technical Co-operation (CFTC) experts.

5. To provide tight top management control over targets, work programmes and results achieved in:

- (a) Project development and appraisal;
- (b) Implementation of monitoring systems and investment control;
- (c) Crisis management programme;
- (d) Counterpart staffing.

6. To improve internal co-ordination and achieve team spirit and motivation by systematic internal work meetings attended by all senior staff.

## II. CORPORATE OBJECTIVES AND INVESTMENT POLICIES

### Private sector equity participation

With reference to the recommendations presented in his earlier report, the consultant would like to emphasize again the importance of increasing the private sector equity participation in CIC to its originally planned level of \$EC 2 million (present level is \$EC 1.3 million), and to actively explore the possibility of participation by extra-regional companies and institutions (commercial banks etc.) along the lines proposed.

In the loan negotiations with the European Investment Bank, the pay-up of the private sector participation has already become an issue, and it will undoubtedly also influence the granting of additional credit facilities by development banks such as the German Development Corporation (DEG) and by commercial banks.

The new institutions approached this year were the Canadian, United Kingdom and United States commercial banks operating in the East Caribbean Common Market (ECCM) area. These institutions can undoubtedly be the source of additional subscriptions. In this regard, it is recommended that the Board of CIC take an active role in soliciting such additional subscription.

### Flexibility in lending operations

The operating experience of CIC during the past year has confirmed the views expressed in the consultant's earlier report of the increasing importance of providing credit facilities for working capital to companies in which CIC makes equity investments. Although CIC has preserved a certain flexibility in this respect, it is regrettable that the Caribbean Development Bank (CDB) has not seen fit to grant CIC wider latitude in the utilization of its long-term credit facility.

To build up a more flexible lending capacity for CIC, it will be necessary to follow up vigorously the advanced negotiations with the European Investment Bank and the initial contact made with the DEG.

### Minority protection rights

It is recommended that CIC institute, for its future participations, minority protection rights along the lines originally suggested, and outlined below.

The policy of CIC is to participate as a minority holder of equity. Protection rights as mentioned below are important for three principal reasons:

- (a) To safeguard CIC against arbitrary action by the majority shareholders;
- (b) To ensure CIC's concurrence with major policy decisions;
- (c) To improve later saleability of CIC's investments.

Minority protection rights should be incorporated into the by-laws of the investee companies, and they should foresee the necessity of having qualified majorities (percentages requiring CIC concurrence) at both board and shareholders' meetings in making the following decisions:

- Dissolution of company
- Mergers and acquisitions (active and passive)
- Any changes and amendments to by-laws and statutes of the companies
- Long-term indebtedness in excess of specified limits
- The granting of any guarantees not related to the normal business operations of the company
- The signing of management and licence contracts
- Disposition of substantial assets of the company
- The signing of contracts, granting of credits, payment of remunerations to/with directors or shareholders

Depending on the situation at hand, the following additional decisions may be made subject to necessary concurrence by CIC:

- (a) Hiring and dismissal of general managers;
- (b) Right of first refusal in case of sale of shares by other shareholders.

#### Accounting for stock dividends

As anticipated in the expert's earlier report, CIC is beginning to be faced with the situation in which well-earning investments are not able to pay a cash dividend because cash flow must be preserved for growth and expansion (for example, the Ocean Terrace Inn). As a development institution, CIC will have no choice but to go along with its local partners and reinvest earnings.

Since CIC is carrying its equity investments at cost, however, the increase in underlying net worth of its well-functioning investments are not reflected in its books.

The practice followed by other development investment companies and recommended for CIC is:

(a) To insist that a reasonably high percentage (50-60%) of net earnings be distributed by operating companies as a stock dividend, thus conserving cash flow;

(b) That in CIC's income statement such amounts be shown as income, valuing the stock dividends at par and identifying such income as "stock dividends at par value";

(c) That CIC should add at the same time - in its own balance sheet - the total of stock dividend income received to its reserves for possible losses on investments. Thus, CIC would make sure that the non-cash nature of stock dividend income is reflected by making such income non-distributable to CIC shareholders.

This practice has been approved by two of the "Big Eight" international auditing firms with respect to institutions similar to CIC. For CIC, this would take cognizance of portfolio value increases by accumulated earnings of operating companies, while respecting the necessity to avoid cash dividend payouts.

### III. PROJECT PROMOTION ACTIVITIES

#### Review of established development programme

The high priority awarded to project development activities in past reports has found a most encouraging echo in CIC. Of the 22 projects identified as priority items in the December 1976 work programme, 18 projects are in the process of execution and analysis.

The summary is as follows:

Projects completed	3
Projects under execution or active analysis	7
Projects under preliminary study	3
Projects demonstrated as not feasible	2
Projects shelved for political reasons	1
Inactive projects requiring analysis and promotion	6
Total	<u>22</u>

#### Projects completed

<u>Project</u>	<u>Project number</u>
Chicken farm (Antigua), with potential of duplication on St. Lucia; CIC investment approved	(04)
Feed mill (St. Lucia); privately sponsored Project in St. Vincents under construction (CIC to participate)	(06)
Garments (two new projects approved by CIC)	(21)

#### Projects under active negotiation

Cattle raising (grazing), St. Lucia; CIC promoting	(01)
Cattle feedlot operation (St. Lucia); CDB/CIC/Geeest	(02)
Pig farming (St. Vincent); CDB/CIC to re-organize existing company	(03)
Slaughtering facility (St. Lucia); in conjunction with (01)/(02)	(05)
Margarine and shortening (St. Lucia); project under approval as CIC investment	(07)
Fruit and vegetable canning, pilot operation (St. Lucia); project under approval as CIC investment	(11)
Timber resources utilization (Dominica); British Development Division (BDD) executing	(18)

Of the above-mentioned 10 projects, one is being promoted by the British Development Division (No. 18) and one was executed by private promoters alone (No. 06). In all of the others, CIC is playing the leading role, in project No. 02 with active intervention by CDB.

Projects under preliminary analysis

<u>Project</u>	<u>Project number</u>
Fish filleting and processing for local use (St. Lucia)	(10)
Spices processing (Grenada)	(13)
Fertilizer mixing (St. Lucia)	(14)

Projects demonstrated to be unfeasible

Honey for export. Visit by technical director of the world's largest honey producer in Mexico showed that:

- (a) Honey of non-exportable quality (dark brown colour owing to type of vegetable prevailing);
- (b) Honey yield per beehive very much below normal levels (6-20 kg on St. Lucia compared with 50 kg in Mexico and up to 80-100 kg in Canada) (14)

Cocoa processing, Grenada. Analysis showed that price ratio of raw cocoa to cocoa liquor is now so low in world market that processing margin is only 3 per cent, which is insufficient for small volume obtainable in Grenada (12)

Project shelved for political reasons

Arrowroot (St. Vincent). Government, under new agricultural policy, decided to concentrate on reintroduction of sugar-cane planting and processing at the expense of arrowroot cultivation (16)

Inactive project requiring analysis and promotion

Coir fibre processing	(08)
Shredded, desiccated coconut production	(09)
Organized cultivation and processing of cashew nuts and other similar articles	(15)
Inter-island sea transport system (see section on special projects)	(19)
Pottery	(20)
Costume jewellery	(22)

Updated action programme

Priorities of CIC in project promotion should now be:

- (a) To actively pursue, through to approval and execution, the projects in negotiation and preliminary analysis;
- (b) To initiate the promotion of project duplication of locally oriented projects for other islands (chicken farms, pig raising, cattle, fish processing for local use, fruit and vegetable canning);
- (c) To activate the dormant projects according to items in the work programme established December 1976.

Recommendations for project promotion

As envisaged in 1976, the project promotion programme of CIC requires substantial efforts and talent. Above all, CIC should play an active and dynamic role in identifying worthwhile projects, in analysing their feasibility, in devising a financial structure and in finding the proper entrepreneurial backing.

CIC efforts in this direction have been made difficult for two reasons:

- (a) Planned additional United Nations advisory personnel have not yet arrived;
- (b) Local counterparts have not yet been found.

Thus, project development has remained on the shoulders of the Project Evaluation Manager (now to be absent at a World Bank seminar), the UNIDO Project Manager and the General Manager of CIC. No in-house capabilities exist yet for market research and project promotion on a full-time, continuous basis. It is therefore recommended:

- (a) That project and programme development be accelerated;
- (b) That detailed internal work plans and follow-up programmes be established for each project, and that such plans be reviewed and controlled periodically;
- (c) That project development meetings inside CIC take place once a month with the following persons attending: General Manager, manager of investment operations (not yet named), head of investment appraisal, all project analysts and UNIDO team members for discussion of progress and problems and for information on new contacts and on-going negotiations. Minutes of such meetings should be kept and distributed.

The objective of such activities should be to emphasize the active development role of CIC and to lessen its past dependence on ideas and proposals brought by others.



Special projects

During the present visit, three projects of major development impact were discussed with government and private enterprise sources:

(a) A ship-repair facility in St. Lucia. A major English ship-repair facilities operator is considering locating a floating dock for 60,000-ton capacity and a machine shop in St. Lucia. This project would provide up to 500 skilled jobs and have a major effect on development. Conversations were held with the St. Lucia Government based on a project profile prepared by the consultant. The project would represent a total investment of \$20 million, with financing to be solicited from the Commonwealth Development Corporation (CDC), CDB and CIC, as well as through suppliers' credits. The foreign technical partner would agree to invest up to 50 per cent of the capital requirements;

(b) Inter-island sea transport (see original November 1976 project No. 19). During the present visit, a West Indian ship operator with successful business experience was located who agreed to join the projected enterprise. Technical specifications for the ships were established in a preliminary fashion, for review and preliminary quotations by specialized boat builders;

(c) International-standard tourism resort development at Cap Estate in St. Lucia. Through contacts established in Europe and the United States by the consultant, a group of well-known tourist resort developers with experience in Spain came to visit St. Lucia with a view to exploring the potential of developing Cap Estate into an international class resort with golf and tennis facilities and condominium and vacation housing. The project would provide a major contribution to the promotion of St. Lucia tourism as a whole, and it would create a substantial number of jobs in ancillary local supplies and services. A full-scale feasibility study costing \$60,000 was to be commissioned by Cap Estate in October, for completion by January/February of 1978.

#### IV. PROJECT EVALUATION PROCEDURES

Detailed recommendations and samples of investment document presentation and comments on methodology for project evaluation were submitted in the previous report. A review of present procedures shows that most of the important issues have been dealt with. Nevertheless, it is suggested that improvements be considered along the following lines:

##### Project analysis

##### Identification and evaluation of critical factors

Each project has several critical factors which vitally affect its future operation. More weight should be given in project analysis and preparation of investment documents to a clear identification of such factors and to an appraisal of how they are going to be controlled and of how variations would affect the project. In other words, questions not sufficiently dealt with in present CIC investment documents are: What can go wrong with the project? What are the down-side risks? Which measures should be taken to control the critical factors?

Such analysis is doubly important because it provides the basis for designing the monitoring system described below, and because responsibility for project control passes to another department at CIC once the project is approved. Thus, the project appraisal team must clearly identify for the investment management section the critical factors to be watched and controlled.

The critical factors review should form a routine part of all investment documents presented for board approval in order to allow review and discussion by the board on the basis of each member's accumulated business and administrative experience.

##### Sensitivity analysis

Related to the identification of critical factors is an analysis of the sensitivity of project returns and cash flow to variations in critical factors. For example, if relatively small variations in purchase price of agricultural products used as inputs in a processing plant would wipe out net profits. To embark on such a project would be risky because of the frequent, uncontrollable occurrences of such fluctuations. In most projects, such factors can be clearly identified, and variations in returns and cash flow

can be easily calculated. Many times, there is also independent statistical information which would allow a judgement to be made of the likelihood of substantial variations in critical factors. This sensitivity analysis should also form a routine part of every investment document presented for Board approval.

#### Summary of basic assumptions used in financial projections

As is already done for some CIC documents, a summary sheet listing the basic assumptions underlying the financial projections should precede the financial annexes (as an example, see the document on the Antigua poultry project).

#### Early presentation of investment documents to the CIC Board

The high standing and accumulated experience of the CIC Board, and the excellent personal contacts of each of its members, make it advisable to circulate investment documents to Board Members well in advance of meetings (a minimum of 20 days) to allow for their review, both as regards the business aspects of the projects and the personal standing of the proposed partners or managers.

#### Comparator of projections with actual results

In most development banks investment documents are filed away and forgotten once projects are approved, only to be revived if and when critical situations arise with respect to the project. It is recommended that CIC make it a routine procedure to compare each of its approved investments once a year with original forecasts in order to analyse possible variations. This will provide valuable guidelines on the errors or oversights in the analytical process which have to be avoided in the future.

#### Pre-disbursement control

As will be mentioned in a later section of this report, special attention needs to be given to the interfacing of responsibilities within CIC. One such critical point is the review, at the time of disbursement, of whether the conditions of investment of CIC have been met. Such detailed conditions are contained in the approval letter sent to investee companies by the General Manager, on the basis of the terms of approval by the CIC Board.

Usually, some time passes between approval and first disbursement, especially if the operating companies are required to produce mortgage deeds, collateral deposit agreements, machinery import invoices etc. A formal review should take place whether all pre-disbursement conditions have been met or not, before the CIC treasury releases the funds.

At the same time, however, CIC should help its clients to expedite the preparation of legal and loan documentation by the following action:

(a) A mimeographed standard summary of all legal and financial documentation required from the client should be prepared before disbursement can take place. This listing should be delivered to prospective investees or borrowers at the time of project appraisal so that clients are aware of these aspects;

(b) At the time the General Manager's letter is sent to the clients to inform them about an investment approved by the CIC Board, an annex to the letter should restate in detail the exact type and form of documentation required.

## V. INVESTMENT MANAGEMENT

The time has now definitely come to inaugurate the investment control and management functions of CIC. Its number of approved projects stands at 18, on seven islands and in Belize. The first problems have started to develop in operating companies, as would be natural and expected. CIC at this time, however, is without a comprehensive and functioning investment control system. (It should be clarified that this is not as much the responsibility of CIC as it is the legacy of the previous investment control officer on assignment to CIC who left without having established proper systems and procedures and without have trained his replacement.)

The top priorities for CIC are the following:

- (a) Systematization of investment-control procedures;
- (b) Implementation of a project-monitoring system;
- (c) Crisis-management systems and capabilities;
- (d) Training courses and seminars for controllers/financial officers of operating companies.

The following points only touch on the principal items to be covered. Procedural details are contained in the consultant's earlier report and were discussed with CIC personnel during the present visit.

### Systematization of investment-control procedures

- (a) Visual display board for control of receipt of financial and operating information showing (for entire calendar year) for each company:
  - Date of disbursement
  - Fiscal year end
  - Monthly or quarterly information due (date)
  - Monthly or quarterly information received (date)
  - Audited statements due and received
  - Board meeting minutes due and received
  - AGM minutes due and received
  - Date of review visits executed by CIC personnel;
- (b) Systematic and immediate reminders in case of delays in receipt of statements (by cable);
- (c) Standardization of financial statement information received from operating companies (task to be executed in CIC offices in order not to burden operating companies with additional paper work);

- (d) Comparison of actual versus forecast results on a continuing basis;
- (e) Together with operating company management, the preparation of monthly, quarterly and annual budgeting and subsequent performance control with analysis of variances.

Implementation of project monitoring system

As proposed in the previous report, CIC must build up a monitoring system for key operating data which would allow CIC to detect anomalies and problems before quarterly accounting data are received. By the time financial statements are received, remedial action may be very late and very difficult.

The objective of the monitoring system (in contrast to the financial control system) is to have available, at the latest five days after closing of the month, key performance data which every factory or company manager would have readily available without having to wait for the normal accounting results.

By comparing the performance of these key data against the target data, one can immediately see whether a project is going into the loss column. The key data will be different for each project, and thus the monitoring data will have to be designed for each company separately.

An example: In the Antigua poultry project, the critical variables are:

- Production of birds per week
- Hatch rate
- Pounds of meat per bird sold
- Sales price per pound of meat
- Feed cost per pound
- Feed consumption per pound of meat produced

All of these data are easily and immediately available.

For each of the six variables, clear targets exist. Thus, the monitoring system would only call for one cable per month, to be dispatched within five days after the end of the month, showing the letters A to F and one figure behind each letter. If the values fall close to targeted figures, CIC knows that the project is on course, even if accounting data are six to eight weeks late.

A contrary example is the case of the Belize Printing Co., in which CIC received the 30 June financial statements on 29 August, showing a loss of about one third of its equity capital. The earliest corrective action possible was in September. No interim data had allowed CIC to have an inkling of the trouble that was brewing.

During this visit of the consultant, meetings were held at CIC to explain, on the basis of all projects approved in 1977, the design of monitoring systems for each investment.

Hopefully, work may be completed by the year's end on the introduction, albeit on a trial basis, of this system, which is considered especially important for CIC in view of the almost customary delay of two months in receiving quarterly figures. This delay may lead to a possible five-month period during which CIC would be working in the dark as to the operating conditions of its investments.

### Crisis management in CIC

#### The importance of crisis management

A development institution without losses and without bail-out situations is probably not doing its job properly. Projects in difficulty, and turn-around jobs, are a normal part of any development institution's job.

Obviously, one would try to weed out potentially bad projects in the appraisal stage. Nevertheless, some problem cases will always develop. It then becomes of decisive importance:

- (a) To detect trouble at the earliest possible moment;
- (b) To be in a position to take immediate corrective action.

Hence, the emphasis on the previously described monitoring system, which should provide early warning information. Once trouble is detected, however, CIC must be prepared to step in to the rescue.

The usual banking attitude in problem cases is not to get involved and to operate on guarantees and collateral without taking responsibility for reorganizing the business. CIC cannot afford to take this posture. Although CIC is a minority partner, it would not be able to elude its reorganizational responsibilities for the following reasons:

- (a) If the ineptitude of the controlling shareholders had caused the trouble, to leave things in their hands without intervention would make things worse;
- (b) Presumably, CIC has access to knowledge, professional skills, technology and finance - the vital ingredients in a turn-around situation;
- (c) CIC should be a true partner of the other investors in its enterprises. This means that it cannot walk away from trouble but must face it squarely and in a positive spirit.

Thus, it must develop trouble-shooting and problem-solving capabilities to cope with investments in a critical state, and it must do so immediately.

At present, the following CIC investments require trouble-shooting assistance:

(a) Belize Printing Co., Belize. The company is not only showing a large net loss, but a negative gross margin, i.e., it is not even covering its direct cost of sales. This indicates serious shortcomings in estimating, quoting and pricing, and possibly an absence of controls on materials buying and job costing;

(b) Love Creations, St. Vincent. This garment firm is built on a faulty marketing concept and now has to reorient its selling and production activities;

(c) Summit Products, Grenada. These makers of confectionery are in a totally disadvantageous cost position versus their Barbadian competitors because of sugar price subsidies in Barbados;

(d) St. Vincent Packers, St. Vincent. These are pig farming, slaughtering and processing facilities which are at present totally paralysed because of infighting among shareholders, managerial inability and lack of decisive remedial action by CDB;

(e) Fine Timbers, St. Lucia. This firm is finally in the black, but with large accumulated start-up losses;

(f) Bi-Trinee (garments), Dominica. This company has been showing losses during the last two years;

(g) Windward and Leeward Brewery Ltd. (Heineken Brewer), St. Lucia. This firm has been showing substantial losses despite good sales. This investment seems to be a typical case in which all shareholders implicitly believe that "name" and "good management" make it unnecessary to check on performance. It would seem that the time has come when CIC should actively seek information on the cause of losses and on the company's plans to improve its performance.

The total CIC equity investments in losing companies at present stands at 29% of its equity portfolio, clearly pointing to the necessity of more active control and intervention by CIC (the above percentage does not include the equity in Fine Timbers, which is now showing modest operational profits and the inclusion of which would bring this percentage up to 51%). Again, it should be repeated that any development finance company will constantly have a substantial number of projects under start-up and showing losses. But the above figures do point up that priority should be given to investment control, project monitoring and crisis management in CIC.

#### The organization of crisis management

Organizing trouble-shooting activities implies three phases:

- (a) An early warning system to detect trouble (see: monitoring system);
- (b) The resolve to take immediate action;
- (c) Planning, execution and supervision of crisis management work.

The first aspect has been treated in detail earlier in this report. Thus, it will suffice here to concentrate on the third aspect, listing the action CIC should take to build up trouble-shooting capabilities:

(a) CIC should recognize that projects in trouble are not isolated or capable of being handled informally by whomever happens to travel to the island concerned, but that troublesome cases must be tackled in a continuing and organized way;



(b) One senior officer of CIC should be made responsible for supervising, organizing and directing the rescue programmes. This officer should not be the person concerned with the on-going investment control and monitoring described earlier because the rescue workload would lead to an abandonment of normal controls. Without normal and continuous controls and monitoring, additional projects may slip into trouble;

(c) CIC should prepare an action plan for each crisis investment with a complete listing of measures to be taken, deadlines and nomination of persons responsible for the execution of each task. Such action plans should be reviewed against progress made each week;

(d) CIC should prepare and maintain, on a monthly basis, a "red list" for its top management, listing all crisis cases and reporting on the status of trouble-shooting;

(e) CIC should try to identify, on each LDC island where it has investments, a senior business executive, either active or retired, who would be prepared to act as "senior adviser" to CIC for his territory. His duties would be one of CIC's representatives on the board of local companies and to oversee CIC's trouble-shooting activities on a local level, in accordance with the action plans mentioned under (c) above. Such persons, if given a prestigious title and appealed to in a spirit of co-operation for economic development, could probably be motivated to serve without salary, receiving only the normal director's fees in each local company. CIC would then be assured of having the type of business-oriented advice it needs for the supervision of its investments and trouble-shooting activities.

For new projects and general contacts on each island, CIC will, of course, wish to continue to work through the National Development Corporation and other public and private organizations. The senior advisers' activities would be concentrated exclusively on the board-level supervision of operating investments and on the control of assistance or rescue programmes for specific projects.

Probably, CIC's Board Members, some of whom have in the past assisted CIC on the boards of operating companies, would be in an excellent position to suggest names and references of persons suitable for appointment as senior advisers to CIC.

#### Training and orientation programmes

Once CIC has established its internal control systems and the monitoring systems mentioned earlier, it should start organizing a once or twice-a-year training and orientation programme for management, controllers and financial officers of its companies. Such sessions, to be planned for three days duration each, with costs to be borne by the attendants themselves, should serve to acquaint the persons attending with systems, procedures and methods of financial and operating control and reporting.

Care must be taken, however, that such seminars are initiated only when CIC is certain:

- (a) That its own internal control system for investments is established and functioning;
- (b) That it knows exactly what objectives it wants to pursue with the reporting and control systems of each company;
- (c) That the seminars themselves are prepared fully and professionally.

If CIC so desires, the next visit of this consultant in May of 1978 could be utilized to conduct the first of such seminars.

## VI. INTERNAL ORGANIZATION OF CIC

### Assistance programmes of international agencies

The United Nations Development Programme (UNDP) has approved a significant increase in its support to CIC which should provide a decisive impetus to CIC's development activities. Under the programme, two approved posts remain to be filled - one project analyst and one financial adviser (for investment management tasks).

The proposed CIDA counterpart financing programme has not yet been finalized but should receive priority attention by CIC top management in view of the observations made below regarding counterpart positions.

### Priorities in internal organization

It is natural that a period of rapid expansion of investment activities and the stepping up of assistance programmes by international agencies are creating special organizational problems within CIC at this time.

What needs to be done urgently is:

- (a) To provide capable counterpart staffing in CIC;
- (b) To provide increased and tighter top management guidance and control over internal functions during the period of assistance by international agencies;
- (c) To increase internal communications, build team spirit and provide goal-directed motivation for CIC staff.

### Counterpart staffing

The big danger faced by CIC at present is that, unless immediate measures are taken to provide capable counterpart staff, the assistance programmes of UNDP will not be as effective as is necessary.

At this moment, the counterpart of the Project Manager/Project Evaluator will be away at a World Bank course for two months. The financial analyst (investment management) is without counterpart. The two unfilled UNDP posts are, as yet, also without counterparts. The CFIC engineer heading technical services, whose functional area includes crisis management, is without a counterpart.

Unless this situation is remedied soon, CIC will not have the local "recipients" for the know-how imparted by the visiting experts, and their principal function of passing on and transferring their knowledge will be severely impaired. In this case, it becomes important to get a final agreement on the CIDA-financed programmes. It is also recommended that the amount of courses and seminars attended by local CIC personnel during the next year and a half be reduced in order to minimize the discontinuity in the course of assistance work by UNDP and CFTC personnel.

Tighter top management guidance and control

During the transitional period, when the staff of CIC will include a high proportion of expatriate personnel and when counterpart staffing is still incomplete, tighter control and closer guidance by CIC's chief executive will be vital.

It must, of course, be recognized that the chief executive already carries a heavy burden of work. He must attend to Board matters, meetings and contacts, and he must handle contacts with Governments, international agencies and development finance institutions. Consequently, his travel schedule is heavy because the tasks mentioned above cannot be delegated. Nevertheless, the internal consolidation of CIC's organization should now receive priority, if need be at the expense of curtailing travel and outside activities for a while.

Areas in which guidance should be provided are:

- Orientation of project development activities
- Priority-setting in project evaluation and appraisal
- Implementation of monitoring system
- Implementation of investment control systems
- Crisis management orientation, priorities, action programmes
- CO-ordinated use and direction of United Nations and CFTC experts

Tight control is required over targets, work programme and projects achieved in:

- Project development and project appraisal
- Implementation of monitoring systems and investment controls
- Crisis management programme
- Completion of counterpart staffing and assistance programme staffing
- Systemization of knowledge transfer from expatriate assistance staff to local counterparts

The Chief Executive will probably wish to implement these recommendations by means of:

- (a) Formal monthly meetings with United Nations/CFTC personnel for establishing work programme and action priorities;
- (b) Weekly review meetings with UNIDO Project Manager to review progress;
- (c) Frequent consultations with executives handling key priorities (like crisis management and monitoring systems), to review progress made.

Team spirit, communication, motivation

During periods of reorganization, expansion and new staffing it becomes especially important to instil team spirit, provide motivation and increase internal communication.

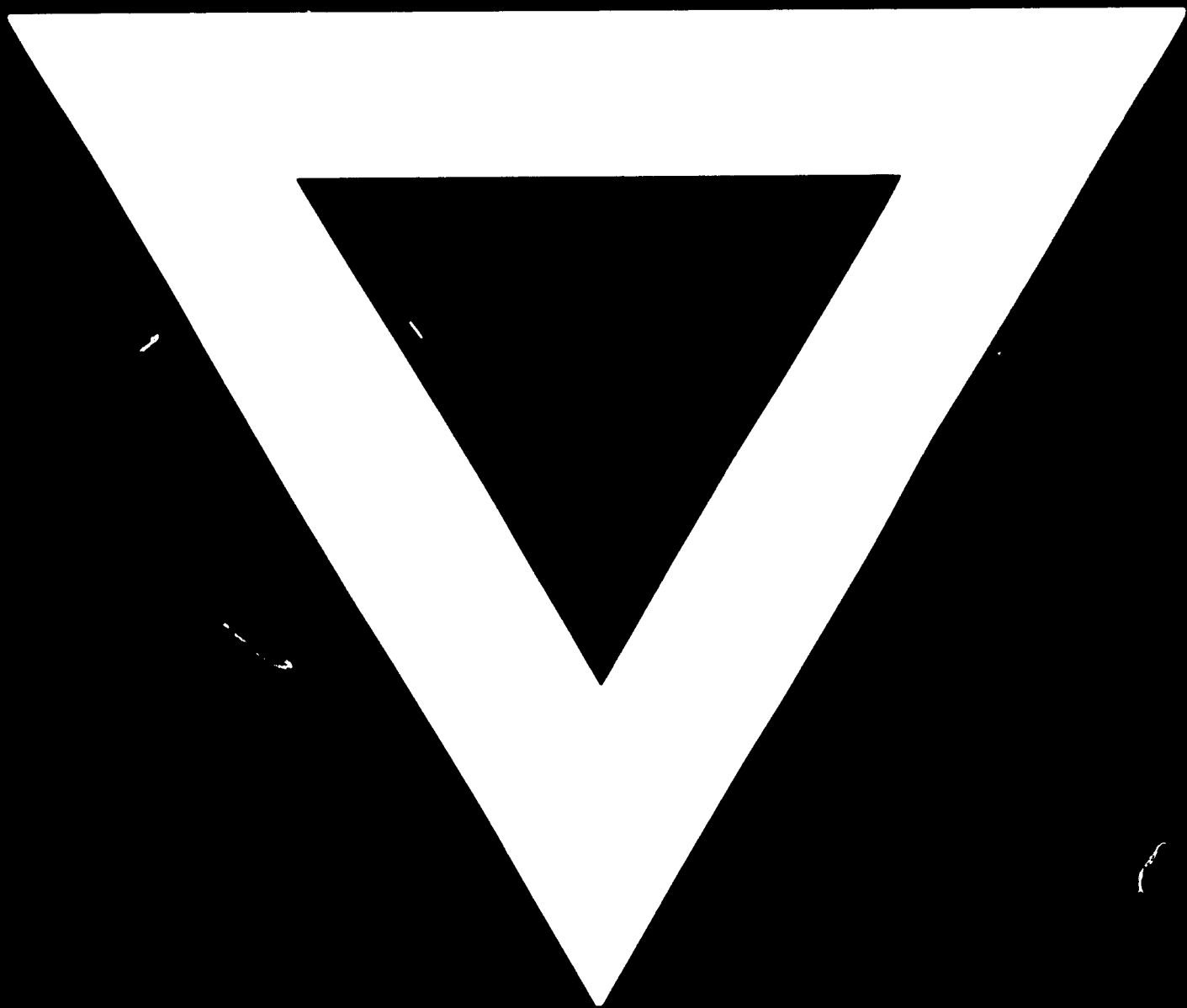
One of the simplest means of accomplishing this is via informal weekly staff meetings with all CIC and advisory/assistance personnel at which each executive reports briefly and concisely about his present activities and raises any questions pertaining to his activity. These meetings need not last more than one hour (the first are likely to be longer until reporting is reduced to essential matters).

Thus, each executive is aware of the activities of his colleagues and feels himself part of a dynamic and close-knit organization. These meetings also provide the chief executive with an opportunity to emphasize priorities, review policies and set targets.

Focusing the attention of the chief executive on the matters reviewed here and in previous sections of this report should greatly enhance the effectiveness and internal cohesion of CIC.



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