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**ASSISTANCE
TO THE
CARIBBEAN
INVESTMENT
CORPORATION**

BY/CA/7/00

CARIBBEAN

INVESTMENT

Report by the
United States International Development Corporation
concerning the
United States Development Program



United States International Development Corporation

United Nations Industrial Development Organization

ASSISTANCE TO THE CARIBBEAN INVESTMENT CORPORATION

IP/CAR/74/006

CARIBBEAN

Technical Report

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

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

United Nations Industrial Development Organization
Vienna, 1977

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:

CARICOM	Caribbean Community
CDB	Caribbean Development Bank
CDC	Commonwealth Development Corporation
CFTC	Commonwealth Fund for Technical Co-operation
CIC	Caribbean Investment Corporation
DCF	Discounted Cash Flow
ECCM	East Caribbean Common Market
EIU	Economic Intelligence Unit (of the ECCM)
ITC	International Trade Centre
IDA	International Development Association
LDC	Least Developed Countries
MDC	More Developed Countries

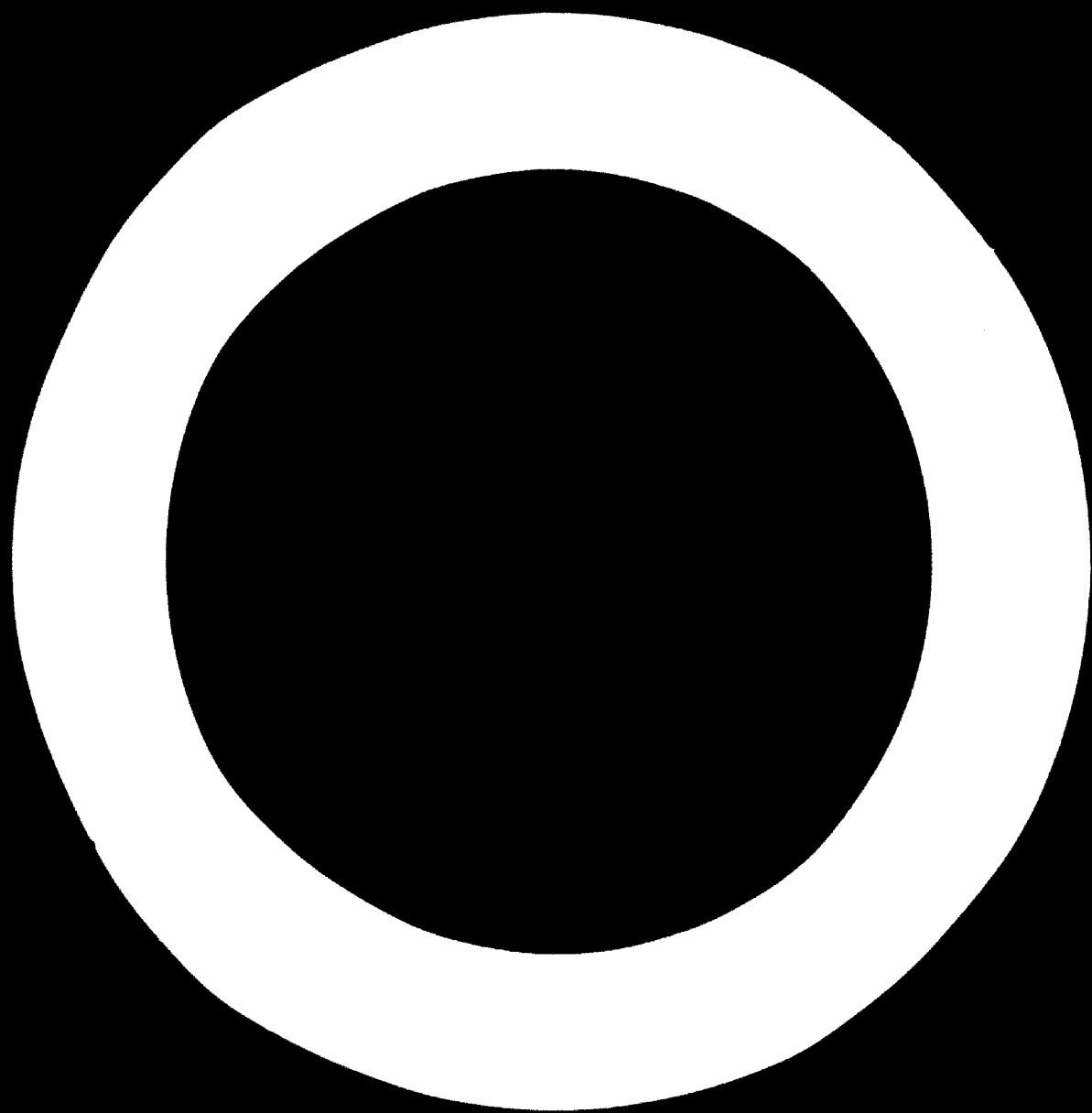
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ABSTRACT

This is the report of the management consultant assigned to the project "Assistance to the Caribbean Investment Corporation" (EP/CAR/74/006).

The consultant made two visits to the Caribbean Investment Corporation (CIC) in 1976. His mission was to give policy and organisational guidance to the CIC as an instrument of economic development in the Caribbean region. The report contains detailed findings and conclusions relating to priorities, corporate structure, investment policies and operations and procedures of CIC. The consultant's suggestions and recommendations are set forth in each chapter as they relate to the topic discussed.



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INTRODUCTION

This is the report of a mission which formed part of the project "Assistance to the Caribbean Investment Corporation" (DP/CAR/74/006). According to the terms of reference of his assignment, the consultant was to assist and advise the Caribbean Community in collaboration with the General Manager of the Caribbean Investment Corporation (CIC) in the:

- (a) Organization and administration of CIC;
- (b) Formulation of its long-term policy;
- (c) Development of appropriate systems and procedures;
- (d) Identification of new industries suitable for financing by the CIC;
- (e) Provision of such operational and managerial advice as might be needed to enable the CIC to become a viable and efficient regional financing institution.

The expert was also expected to prepare a final report setting out the findings of his mission and his recommendations to the Governments on further actions which might be taken.

The systems and procedures proposed in this report were prepared for CIC during the visit of the consultant. As a follow-up for implementation of the project development programme, CIC has indicated that another visit would be desirable, subject to approval and authorisation by UNIDO. This proposed visit would include a presentation to and discussion with the Board of Directors of CIC.

While a substantial portion of the time available for the consulting work was spent in review, discussion and planning with the CIC management and staff, and with the UNIDO Team Leader at CIC, extensive contacts were also established with representatives of the Government in St. Lucia, Antigua and St. Vincent. Informative discussions were held with the UNIDO team and with the ITC adviser in Antigua, as well as with the East Caribbean Common Market (ECCM) secretariat in Antigua, the Caribbean Development Bank (CDB), the UNDP office in Georgetown and the Canadian High Commission.

In addition, a series of meetings took place with businessmen, estate managers and agricultural technicians on specific project ideas and implementation plans. Likewise, the representatives of the Hotel Association were consulted on topics relating to the activation of better linkage between the tourism sector and the local economy.

I. POLICY GUIDANCE AND CORPORATE ADMINISTRATION

Introduction and background

Policy and organizational guidance were the first tasks undertaken. The objective was to make CIC not only a viable and efficient regional financing institution, but also a dynamic instrument for planned economic development in the region. The following topics were covered, and the analysis and conclusions presented in the following sections appear exactly as they were submitted to CIC in May 1976:

Priorities summary

Corporate structure

Investment policies

Operations and procedures

These recommendations were followed up by remitting to CIC, in July/August 1976, the procedural and systems guidelines contained in chapter II of the present report, covering project evaluation, investment document preparation, lending guidelines and project monitoring.

Comment and recommendations on policy, planning and operations of CIC

Priorities

The CIC clearly recognized that its initial priority, after organizing skeleton staff and moving into its office quarters, had to be the analysis and approval of a substantial number of initial projects to provide an immediate development impact and to judge the need and demand for its services. This activity now needs to be followed up by:

- (a) Systematic initiation of project promotion work by CIC (see chapter III);
- (b) Systematization and strengthening of investment management activities as defined in chapter III;
- (c) Broadening the scope of financial services provided by CIC, specifically short- and medium-term lending activities (see chapter II);
- (d) Increasing the sources of quality capital for CIC.

The following sections of this report will elaborate on the consideration of corporate structure, investment policies and operational guidelines.

Corporate structure

The corporate structure of CIC, as laid down in the articles of agreement governing its creation, admirably meets the basic corporate objectives of the institution. The control of the Board of Governors rests with the

least developed countries (LDCs), while the Board of Directors, which has the authority over investment, is weighted in favour of the more developed countries (MDCs).

As indicated clearly in the CIC annual reports, however, the anticipated 40% private sector participation in the capital of CIC has not materialised. At the end of 1975, the private sector subscription was less than half of the East Caribbean dollar \$EC 2 million apportioned to the Caribbean Community (CARICOM) private sector.

Hence it is recommended that the CIC Board of Governors consider a modification in the corporate charter of CIC, allowing the subscription of up to 25% of the capital of CIC by non-CARICOM public or private institutions.

Reasoning and precedents. The basic objective of CIC is to channel investment funds into the least developed countries of CARICOM. As long as the governing structure of CIC remains unaffected and as long as CARICOM control is clearly maintained, there is no reason to exclude minority capital participation by non-CARICOM public and private institutions.

There are a substantial number of public financial institutions (like Nacional Financiera of Mexico, Cavendes of Venezuela) of neighbouring countries which may have an interest in participation. There are also a number of private financial institutions, principally United States, Canadian and English, which maintain substantial operations in the CARICOM area and which would be logical supporters of CIC. Then there are private foreign business concerns with important markets in CARICOM which could probably be persuaded to join.

The most important precedent set in this regard is the granting of associate membership by the Inter-American Development Bank to non-regional countries (e.g. the Federal Republic of Germany). Since the amounts which CIC, even under optimistic assumptions, would be able to pay as dividends would be limited to 3-5% per annum, no objection over substantial outflows of profits can be sustained.

Estimated obtainable volume. From foreign banks operating in the area, with proper presentation to their respective head offices, it should be feasible to obtain at least \$EC 1.5 million, with at least another \$EC 0.5 million from foreign business firms active in the area, plus whatever resources would be available from public financial institutions in Brazil, Canada, Colombia, Mexico, the United Kingdom, Venezuela, and Central America.

Corporate status. Non-CARICOM shareholders could possibly be appointed associate members of CIC, with one observer on the Board of Governors and with as many non-voting members of the Board of Directors as would correspond to the share of total equity subscribed by non-CARICOM shareholders.

Investment policies

The investment policy laid down in CIC's charter is well oriented towards the objectives of the Corporation. There are two aspects, however, which were not apparent at the time of formation of CIC but which the consultant expects to become of increasing relevance: lending activities by CIC and management of uncommitted equity funds.

Lending activities of CIC. At this time CIC's investment policy permits any non-convertible loans only as an exception. In addition, the proposed loan agreement with CDB tightens such provisions substantially. Not only would CIC "not normally make loans" (Section g, V of "Conditions precedent to the first disbursement of the loan"), but in a further condition (item j, V) for the granting of sub-loans, financing for working capital out of CDB resources is prohibited.

In the light of experience of other institutions, and in view of the development objective of CIC, such restrictions are not considered reasonable.

Development considerations. Normally, any new project in which CIC participates as an equity partner will only become "bankable" for normal working capital financing by commercial banks (for example for inventories or for accounts receivable) after demonstrating a successful operating history. Auxiliary financing sources, such as factoring of accounts receivable or warehouse certificate financing for inventories, are not available in the CARICOM LDCs.

Consequently, providing working capital finance to new projects is a necessary and beneficial function which CIC should be encouraged and enabled to assume. Development finance should not end with the acquisition of plant and equipment, but the new enterprises must be enabled to meet their working capital needs until such time as the commercial banks can assume this function.

Financing considerations. It should be a desired and an accepted objective of CIC to extend medium term financing even in cases where CIC is not an equity partner. It is precisely the medium-term financing demand which is at present not adequately covered by the normal commercial banks whose operations are concentrated on short-term operations. In many cases, debt consolidations and refinancings, financing for new product lines and similar undertakings will be sought by existing and expanding companies in the LDCs. Such financing will, many times, be handled by the CDB, but it could also be envisaged that for small and medium-sized projects in the LDC area, CIC would be the conduit for such financing. As a longer-term objective, CIC could then initiate the selected placement of medium- and short-term paper by issuing companies in the CARICOM LDC area.

Sources of funds. The two sources of funds available to CIC for such programmes are:

(a) Credit lines to CIC by commercial banks which would be relent at a certain interest margin by CIC;

(b) Partial utilization of Commonwealth Development Corporation (CDC) line presently under negotiation, especially on an interim basis while the CDB commitment cannot yet be fully used for equity investment refinancing.

It is expected that CIC should be able to obtain credit lines from commercial banks for relending by CIC. CIC's corporate structure and shareholder roster are a good basis. Furthermore, the management of CIC's deposits provides a strong leverage to obtain credit lines.

The lending margin obtained in such operations would be a welcome contribution to covering CIC's overhead.

Recommendations

It is recommended:

- (a) That CIC be clearly authorized to undertake working capital financing to companies in which it holds an equity participation;
- (b) That CIC be authorized to undertake medium-term loan financings to companies in which it does not hold an equity participation, provided the purpose of such financing falls within the scope of CIC's investment policies and priorities;
- (c) That CIC be granted authority to solicit medium-term credit lines from commercial banks for the purpose of relending at a margin to projects covered by (a) and (b) above;
- (d) That CIC attempt to negotiate with CDB for an authorization to utilize the CDB credit line also for relending for working capital (or course, at a rate higher than that charged by CDB on similar loans).

Management of funds. At the present time CIC draws a substantial portion of its current income from the deposit of equity funds not yet disbursed to approved investment projects. Under the CDB loan agreement, the entire uncommitted equity is to serve as the income-generating sources for CIC. In the CDB analysis an 8.5% annual return is foreseen on such funds, or a sum sufficient to cover CIC's operating expenses during the non-dividend-producing years.

At the same time, the charter of CIC specifies that "resources not needed in its operations" are to be deposited in a member state (Article 12,c).

This restriction, although quite logical in its principal objective, does seem to substantially affect CIC's ability to comply with the other objective to maximise financial returns from its deposits. The utilisation of these deposits in secure European-based institutions could probably produce much better returns.

The counter-argument that a deposit in a CARICOM commercial bank would better benefit the region is not plausible upon further examination. The large CARICOM commercial banks are all foreign institutions in which a deposit by CIC would only serve to reduce the inflow of funds from outside the region which the banks would otherwise have to provide to meet local operations not covered by local deposits.

Serious consideration should, therefore, be given to allowing CIC to manage its uncommitted funds freely in order to obtain the best financial results without jeopardising security.

Operations

As mentioned earlier, CIC has logically concentrated on its first priority of getting approval for a substantial initial number of projects.

It now becomes necessary to move in the following directions:

- (a) To actively promote projects;
- (b) To systematize analytical procedures and investment documentation;
- (c) To systematize and "flash out" investment management;
- (d) To start planning for later sale of equity investments.

Project promotion. Project promotion is the active identification of investment opportunities by CIC, the preparation of project profiles and - where necessary - pre-feasibility studies, the financial structuring of the project, the search for capable local partners and possibly for foreign joint-venture partners, and control of the practical implementation of the project.

While the volume of projects brought to CIC in varying stages of planning will always be larger than the number of projects which CIC actively promotes itself, such active promotion should become a part of CIC's activity for the following reasons:

- (a) Emphasis can be given to projects with large development impact;
- (b) Any economic decisions taken by the ECON secretariat as to allocation of industries to different LDCs will remain purely academic unless backed up by active promotion of the projects thus distributed;
- (c) CIC can be involved in the initial stages of financial and technical review instead of having to decide on projects already defined in their operational or technical parameters;
- (d) The development fees which CIC can legitimately charge for such integral promotion services (a fee of 5% for projects under \$US 1 million is a generally accepted standard) would contribute importantly to cover its expenses. In addition, many expenses incurred by CIC in the project preparation stage can be reimbursed by the new project (in addition to the above-mentioned fee).

Recommendations

It is recommended:

- (a) That CIC set as an operating goal the active promotion of a certain number of new projects during a specified period of time;
- (b) That a start be made with these projects allocated to the different LDCs and that project profiles be prepared for them;
- (c) That a certain flexibility in the regional allocation of these projects be permitted by the ECON secretariat to allow for the facts that projects need local entrepreneurial talent as a vital ingredient and that there may not always be a coincidence between economic planning and the finding of the right people in the right place.

As a part of project promotion, it is also recommended that emphasis be placed on carrying through one or two initial joint ventures with either MDC or with non-CARICOM partners. Since the CIC investment policy clearly limits the outside participation to 49%, there need be no fear of domination by the outside joint venture partners.

On the other hand, some successful joint ventures would not only increase the solidity of the underlying projects, but it would increase CIC's attractiveness as an active development partner in projects involving foreign companies willing to contribute to the creation of employment and the development of industry and trade in the LDCs.

Project analysis

The actual approval already of 24 projects by CIC may be a good moment to review experience and to move towards a systematisation of operating procedures in the analytical and presentation phase.

The objective is not a bureaucratisation of procedures, but rather:

- (a) To economise routine procedures;
- (b) To address priorities in a systematic fashion;
- (c) To avoid overlooking potentially important aspects;
- (d) To standardise presentations and documentation for easier review, better comparability and logical structure;
- (e) To have a documentation which can easily be used at a later stage to check original assumptions and projections.

Investment management. The investment management function of CIC should include the following components:

1. Investment control:

The financial control of operating investments is already well advanced in its organisation within CIC. The normal financial review of performance should, however, be supplemented by a monitoring system. The monitoring system would provide for the control of the critical operating variables of business in which CIC participates.

Instead of waiting for delayed accounting information there would be immediate feedback if any critical operating factor went out of line. Such data can be obtained outside the normal accounting system and practically without delay.

2. Company development:

Whenever a CIC equity investment is really successful, the underlying company will want to expand or diversify. Here, CIC could play an active and important role through advisory services, international contacts and financing.

Therefore, each original investment by CIC should include a long-term perspective on development potential of each project which would then

be followed up periodically. Of course, professional, financial, organisational and agency services performed by CIC in this regard would be remunerated.

CIC should be prepared to provide such assistance.

3. Crisis management:

Although it is to be hoped that all of CIC's investments will do well, the possibility of any of them getting into trouble must not be excluded. In such cases, CIC will often not want to take the commercial banking view of simply writing off an investment, but it may - and whenever feasible it should - take an active role in reorganisation and "bail out".

Such capability, however, need not yet be maintained in the house.

Sale of investments. The absence of organized capital markets in the CARICOM area and the probability that this situation will continue to prevail for many more years makes it imperative for CIC to seriously consider, and to plan for, the later sale of its investments.

If CIC is to function as intended by its founders, then it must aim to turn over its equity portfolio about every five years so that the proceeds from the sale of investments (hopefully at a capital gain in most cases) can be utilised in promoting new projects, thus multiplying CIC's development impact.

The eventual sale of investments should be systematically analysed in each case at the time of entry. In larger and more developed countries, this becomes less important because, even if local stock markets do not function well, there is still a wide business and financial community with the means of taking over share participations. In the area served by CIC, this is not the case.

It will become necessary for CIC, therefore, to analyse in each case:

(a) To whom could an eventual later sale take place? Does the acquirer have the resources or backing to absorb the CIC participation?

(b) On what conditions should a later sale take place.

Commonly used formulae provide for the re-purchase options by local project shareholders either at book value at the time of sale, or at a certain earnings multiple, or at original cost plus a cumulative interest (as floor price in sales negotiations).

Conclusions

The foregoing remarks were intended to provide a summary of comments and recommendations on issues, most of which had already been addressed by CIC management and its UNIDO advisers. It is hoped that their systematic presentation, coupled with detailed procedural material to be delivered later, will contribute to providing useful suggestions for future CIC operations.

Surely, the co-operation by the resident team members of UNIDO, together with the enthusiasm of CIC's staff, will make it possible for the institution to continue the promising performance initiated by CIC management since the institution started work only a short while ago.

II. SYSTEMS AND PROCEDURES

Orientation

Any recommendations for systems and procedures in an investment and financing institution oriented to entrepreneurs like CIC must take into account two considerations: not to burden the organization with too many bureaucratic procedures while at the same time introducing systems which will allow it:

- (a) To economise routine procedures;
- (b) To address priorities in a systematic fashion;
- (c) To avoid overlooking potentially important aspects in project evaluation;
- (d) To standardise presentation of approval and supporting documentation;
- (e) To unify evaluation criteria.

The following systems and procedures concern three crucial activities of CIC:

- (a) Project analysis and presentation;
- (b) Interface to subsequent investment control activities;
- (c) Lending activities.

Preliminary project evaluation checklist

The project evaluation checklist should be introduced by a brief description of the project with comments on plausibility (basic soundness and merits) of the project and its relation to CIC's aims and objectives.

Markets, prices, distribution

- (a) Estimation of total market for proposed products in planned market region;
- (b) Projected production volume, sales objectives and market share of proposed venture;
- (c) Present sources of supply (imports and local manufacturing for products);
- (d) Tariff protection for products;
- (e) Identification of potential users of products to be manufactured and distribution channels to be used for sale of products;
- (f) Evaluation of the possibility that market demand may be satisfied by substitute products;
- (g) Enumeration and evaluation of critical factors which would affect total market potential and individual sales volume;
- (h) Review of aspects and consequences of economic integration.

Sponsors and management

A checkout should be prepared of sponsors and management according to the outline in the project evaluation checklist.

Technical feasibility and raw materials supply

- (a) Describe manufacturing process to be used;
- (b) Comment on needs for know-how and special skills;
- (c) Mention any contacts established with know-how partners or equipment suppliers;
- (d) Determine sources, costs and quality of raw material supply;
- (e) Determine whether import restrictions for raw materials exist;
- (f) Comment on proposed plant location in relation to supplies, markets, transport and manpower.

Investment requirements, project financing and returns

- (a) Rough estimate of total project cost, broken down into land, construction, equipment and working capital;
- (b) Proposed financial structure of venture, listing methods and sources of equity and debt financing;
- (c) CIC investment amounts to be requested;
- (d) Information on profitability and return on investment;
- (e) Comment on possibilities of future sale of CIC investment.

Timing

- (a) Deadline for CIC investment decision, including reasons for deadline;
- (b) Projected start of operations;
- (c) Estimated disbursement schedule.

On the basis of a review of this preliminary project evaluation by the CIC Investment Committee, it would be decided whether the project should be pursued further. If so, a full investment document would be prepared according to the guidelines suggested in the following section.

Project evaluation checklist and standard format
of CIC investment documents

Introductory notes

This checklist lists the subjects to be discussed in CIC investment documents. As such, it forms the guideline for the analyst during the stage of recollection of information. At the same time it provides the basic structure of the investment document itself, indicating the standard table of contents.

Obviously, this list is only intended to facilitate field work, analysis and presentation. Each project will, to a greater or lesser extent, require a departure from the basic pattern.

The checklist focuses on industrial and agricultural projects. Other types of projects will require the discussion of different subjects and a somewhat different format of the investment document (e.g. hotels, finance companies). Such differences will mainly occur in respect of section 2, "Markets and sales", and section 4, "Technical review".

The differences should follow logically from the nature and characteristics of the project. The depth of the analysis should be the same.

Summary table of contents of investment documents

Cover page (for presentation to the board of directors)

Project description

Returns and risk evaluation - summary

Project highlights

1. Background
2. Markets and sales
3. Sponsors, management and personnel
4. Technical review
5. Financial review
6. Taxation and other legal matters
7. Economic contribution of project

Exhibits

- I. Summary of basic assumptions underlying the financial and operating projections
- II. (Optional) Schedule of loan disbursements, repayments and interest charges

Appendix

- I. Basic economic statistics in (country of project)
- II. Cost of project and sources of financing
- III. Comparative profit and loss statements
- IV. Comparative sources and uses of funds
- V. Comparative balance sheets

Project description

Company: (Name, mentioning whether it is a new or an existing enterprise)

Location:

Activity:

Sponsors: (Only in case of new enterprises)

Shareholders: (Mentioning names and % shareholdings. If a change in holdings and/or increase of share capital is involved, % shareholdings should be given both before and after such change and/or increase)

Board of directors: (Name, age, nationality, specifying which shareholders (groups) each one represents)

Management: (Key management personnel with name, age and nationality. Management contracts covering part or all of the company's activities should be mentioned as well if applicable, specifying name and activity of company taking out the management contract)

Total project cost and financing: (Summary)

Sales: (Last year's sales, for existing companies, and projected sales for representative year)

Amount requested: (Total amount of CIC commitment for which approval is requested)

Form of CIC investment:

Return on CIC investment:

Timing: (Of disbursement of CIC funds)

Conditions: (Any specific conditions that will be attached to CIC's commitment should be mentioned here. If there are no specific conditions, this item should show standard CIC condition)

Returns and risk evaluation - summary Name of company (country)

A. Returns potential

1. Economic contribution of project (year)
 - 1.1 Value added as % of total capital employed:
 - 1.2 Foreign exchange savings:
 - 1.3 Foreign exchange earnings:
 - 1.4 Employment generation (direct and indirect):
2. Intrinsic project profitability
 - 2.1 Intrinsic DCF return on total capital, DCF (cap):
 - 2.2 Intrinsic DCF return on total equity, DCF (eqt):
3. Returns potential on CIC investment
 - 3.1 Intrinsic DCF return to CIC on equity, DCF:
 - 3.2 Realisable DCF return to CIC on equity, DCF (assuming dividend payout ratio of $\frac{x}{y}$ of net earnings and sale of shares in year y at a price equal to z):
 - 3.3 Payback period for CIC equity (assuming 100% earnings payout): years

B. Sensitivity of project

4. Changes in net earnings in response to changes in critical factors (year)

<u>Critical factors</u>	<u>Change in net earnings</u>
-------------------------	-------------------------------

Change in factor A of ± 10%	± $\frac{y}{x}$
Change in factor B of ± 10%	± $\frac{w}{z}$

5. Break-even levels
 - 5.1 Net earnings break-even (year): \$
Sales volume as % of projected sales (year): \$
 - 5.2 Cash break-even sales (year): \$
Volume as % of projected sales (year): \$
6. Effect of delays in project implementation
 - 6.1 Monthly cash deficiency if project income delayed: \$US
 - 6.2 Monthly expense level during last completion months: \$US

Project highlights

This summary should point out briefly the main characteristics of the project that make it attractive as a CIC investment. It is a summary of the appraisal of the project rather than a summary of facts. This appraisal will relate to elements such as:

Origin
Rationale
Coincidence with CIC's objectives
Sponsors
Return and risk

Contents of investment document

1. Background

- (a) Sponsors and history of project or company;
- (b) Brief description of project;
- (c) Logic of the project (competitive advantage, need for company's product etc.);
- (d) Summary of critical factors;
- (e) Expansion potential and possible further financing requirements beyond those presented in this document;
- (f) Reason for present timing of proposal;
- (g) Conditions upon which CIC's participation will be made dependent.

2. Markets and sales

2.1 Markets

- (a) Description and appraisal of market studies (methodology, detail, scope, experience of consultant);
- (b) Description and characteristics of each product line;
- (c) Description of market (size, location, price structure, past and future growth, determinants of future market, export possibilities, most sensitive and critical features of market estimates);
- (d) Competition (evaluate quality of product by international standards, local competitors, their market shares location and their backing, substitute products, competitive advantages of company's product, competitive credit conditions, vulnerability of proposed price structure, price controls, tariff protection);

Note: Sources of statistical and other quantitative data should be clearly identified.

2.2 Sales projections

These should include projected market share and minimum, maximum and most likely sales volumes and prices and most sensitive features of projected sales. When any part of projected income is significantly free from risk this should be noted.

2.3 Sales and distribution

- (a) Sales channels and distributor organization (indicate alternative sales channels);
- (b) Inventory requirements of finished goods;
- (c) Pricing policy and terms of sales to distributors and to ultimate consumers;
- (d) Advertising, packaging and product development plans.

3. Sponsors, management and personnel

3.1 Sponsors

- (a) History and business of sponsors (include any special relationships with project);
- (b) Evaluation as prospective partners.

3.2 Board of directors

- (a) Size, composition and technical qualifications of board;
- (b) References on character and standing in business community of key directors.

3.3 Management

- (a) Organization chart showing interlinkage and reporting relationships of functions;
- (b) Evaluation of general outline of organization in view of company's characteristics and objectives;
- (c) Evaluation of key management personnel in relation to their present or projected position in the company (specifying name, age, health, nationality, education, experience, time with company);
- (d) Evaluation of each manager with regard to character, standing in business community and family relationships with other managers, directors, main shareholders etc.;
- (e) Evaluation of salaries, bonus participation and other benefits distributed to managers in their quality as manager, director and/or shareholder.

3.4 Employees

- (a) Number of workers split up by skills required;
- (b) Availability of suitable personnel;
- (c) Remuneration (basic salary or rate, additional payments);
- (d) Social security contributions;
- (e) Obligatory or voluntary profit participation of personnel;
- (f) Relations with trade unions.

4. Technical review

4.1 Manufacturing process and plant capacity

(a) Description and evaluation of manufacturing process (description and evaluation of process, name and experience of equipment supplier, patent and licence position, special skills required, technical assistance available, advantages over alternative processes including differences in operating costs and/or initial investment, flexibility of equipment in manufacture of different product lines, evaluation of most critical technical features of project);

(b) Suitability of proposed production process and equipment in view of the country's stage of economic and technological development;

(c) Plant capacity (rated capacity, evaluation of feasibility of proposed production levels, flexibility for expansion and for manufacturing different product lines, production and start-up, build up to normal production levels, and initial and target reject rate).

Note: Sources of quantitative data should be clearly identified.

4.2 Plant location

(a) Reasons for plant location (road, rail, water, air and other communications, availability of raw materials, distance from markets, cost and availability of public utilities, skilled and unskilled labour, climatic conditions, cost differential with alternative sites inside country, if any);

(b) Possibility of future expansion;

(c) Considerations relating to regional economic integration. Will location continue to be optimal if regional economic integration materialises?

4.3 Material supply

Cost, quality and availability of raw materials and other inputs, such as power, transport, housing, personnel etc. (cost of major raw materials with transport cost to plant site shown separately; history of price fluctuations, present and projected trends; indication of whether domestic or imported; explanation of quality requirements; availability of raw materials including terms of payments and details of any long-term supply contracts; raw material inventory requirements; if relevant, reference to competitive position of alternative sources of supply, including imports and related tariff protection.)

Note: Sources of quantitative data should be clearly identified.

4.4 Critical factors in technical feasibility

Summary of most sensitive and critical features affecting the technical feasibility of the project (e.g. plant location, materials supply, machinery and equipment, manufacturing process, construction programme).

5. Financial review

5.1 Past performance and financial standing (for existing companies)

5.1.1 Analysis of profitability over the past five years. This includes analysis of return on average equity/employed into its components: sales margin, turnover and leverage.

Formula of calculation:

$$\frac{\text{*Net earnings}}{\text{Average equity}} = \frac{\text{Net earnings}}{\text{Net sales}} \times \frac{\text{Net sales}}{\text{Average total capital}} \times$$
$$1 + \frac{\text{Average outstanding term debt}}{\text{Average equity employed}}$$

5.2 Fixed and deferred investment requirements

- (a) Description of total capital expenditure to be incurred on fixed assets, broken down into main categories and set out on a yearly or half-yearly basis;
- (b) Estimated risk of overrun;
- (c) Amount and timing of replacement capital expenditure;
- (d) Estimated life of the project;
- (e) Details of estimated residual value of assets if project should be abandoned.

5.3 Working capital requirements

- (a) Description of working capital requirements at projected maximum sales levels, broken down into inventories, accounts receivable, cash and accounts payable with a brief justification of the amounts involved, e.g. estimated stock turnover, industry practice;
- (b) Seasonal fluctuation in working capital requirements.

5.4 Project financing

- (a) Breakdown of financing into debt, equity, cash generation etc.; description of equity financing in terms of type of shares, subscribers, price as a % of par value, % of equity capital holdings and % of vote holdings resulting from subscriptions (non-cash subscriptions should be indicated);
- (b) Breakdown of debt financing into the different sources;
- (c) Description of terms of debt financing from each source, including amount, currency, interest rate p.a., repayment terms, security etc.;
- (d) Debt/equity ratio, initial and projected. Evaluation in terms of industry standard, risk etc.;
- (e) Provision for project cost overruns (both physical overruns and foreseeable currency overruns, if applicable).

5.5 Evaluation of project financial performance

5.5.1 Projected cost structure

- (a) Distribution of gross sales revenue for a representative year, showing fixed and variable cost elements;
- (b) Variation over time of incidence of important cost elements owing to anticipated variation in sales or other factors (technological change, world market price trend in raw materials, progressive reductions in import duties, wage increases);
- (c) Income tax.

5.5.2 Projected profitability

(a) Analysis and discussion of the projected return on average equity employed and its three components: sales margin, rotation of capital and leverage.

Formula of calculation:

$$\frac{\text{*Net earnings}}{\text{Average equity employed}} = \frac{\text{Net earnings}}{\text{Net sales}} \times \frac{\text{Net sales}}{\text{Average total capital employed}}$$

$$\times 1 + \frac{\text{Average outstanding term debt}}{\text{Average equity employed}}$$

Data taken from annexes III and V of the investment document. If desired, for larger projects:

- (a) Evaluation of the "intrinsic DCF return on total capital";
- (b) Evaluation of the "intrinsic DCF return potential on equity".

5.5.3 Sensitivity of projected profitability to non-current factors

(a) Measurement and discussion of the net earnings break-even sales volume as % of projected sales for two representative years based on estimated distribution between variable and fixed expenses of the expenses. The estimated division between variable and fixed costs will be on descending sales since the purpose is to measure downside risks.

Formula of calculation:

$$\text{Net earning break-even sales (Fixed operating expenses + interest o}$$

$$\text{Volume as \% of projected sales} = \frac{\text{Term debt + depreciation + amortisation}}{\text{(Net sales-variable operating exp.)}} \times 10$$

- (b) Identification and discussion of critical operational factors affecting profitability. Critical factors should be clearly listed;
- (c) Discussion of the effect of operational critical factors on profitability. The discussion should clearly reveal CIC's estimate of the likeliness of a variation of the critical factors from their projected values. In cases where this is relevant the sensitivity analysis should be summarized in a table of the following format:

Sensitivity of net earnings to critical factors in year

Critical factors	% change in net earnings
± 10% change in factor A	± 2%
± 10% change in factor B	± 1%

The table should refer to a representative year. The selection of factors and the variation shown should follow logically from the preceding discussion. (The direction of change in net earnings (↑ or ↓) depends on the nature of the critical factor, e.g. an increase in a cost item results in a decrease in net earnings. Check always the direction of change after typing).

5.5.4 Projected liquidity and its sensitivity to non-currency factors

(a) Analysis of projected cash surplus and its effect on dividend payout, using the data of annex IV of the investment document. Mention alternatives, if any, with regard to debt repayment, and investment in fixed assets which may affect the projected cash surplus;

(b) Measurement and discussion of debt repayment coverage ratio during projection period.

Formula of calculation:

$$\frac{\text{Depreciation + amortization + net earnings} \times 100}{\text{Debt repayment}}$$

Debt repayment should include any other fixed charge involving a cash outflow not accounted for in the profit and loss (P and L);

(c) Measurement and discussion of the cash break-even sales volume as % of projected sales for two representative years on the same basis as the calculation of the net earnings break-even sales level; see preceding section.

Formula of calculation:

$$\frac{\text{Cash break-even sales volume} \cdot \text{as a \% of projected sales}}{(\text{Fixed operating expenses} + \text{term debt repayment and interest}) \times 100} \\ (\text{Net sales-variable operating expenses})$$

Note that the difference between net earnings break-even and cash break-even level lies in the relation between depreciation and amortization and term debt repayment. The discussion of cash break-even sales level should highlight this relation.

5.6 Currency risk

- (a) Inflation, recent experience and projection;
- (b) Present overvaluation or undervaluation of the local currency;
- (c) Likelihood of devaluation(s) during project implementation and thereafter.

5.7 Form of CIC investment

- (a) Description of proposed CIC investment:

Equity: Type of shares, total amount, price as % of par, % of total equity capital subscribed, % of votes acquired, reasonableness of purchase price

Debt: Amount, interest rate, currency, repayment, security, purpose of financing (if tied), other conditions;

(b) Details of arrangements, if any, with regard to possible sale of CIC shares;

(c) Calculation and evaluation of the pay-back period to CIC defined as the number of years when the sum of dividends to CIC, net of dividend and remittance taxes and, assuming 100% payout, of net earnings if cash is available equals total CIC equity at acquisition cost.

6. Taxation and other legal matters

Sales taxes

Payroll taxes and social security contributions

Obligatory profit sharing of personnel

Corporate income tax

Dividend withholding tax

Remittance tax on dividends to foreign investors

Capital gains tax

7. Economic contribution of project

(a) Total value added as % of total capital employed for a representative year. Value added comprises wages and salaries, depreciation, corporate income tax and net earnings;

(b) Foreign exchange savings for a representative year, calculated as equivalent of imports substituted by the company's sales;

(c) Foreign exchange earnings for a representative year, calculated as the equivalent of total exports or of sales of services to foreigners (hotels) realized by the company;

Note: These measures are not meant to be exact from the viewpoint of economic theory; they serve only as rough approximations of the national income generation and foreign exchange savings/earnings resulting from the project.

(d) Effect on employment (direct and indirect generation).

Exhibits

I. Summary of basic assumptions underlying the financial and operating projections

(This exhibit should summarize in telegraphic style the basic assumptions underlying the projections of the project, as discussed in the investment document and reflected in the financial statements, annexes II-V. The exhibit is purely factual and should not contain comments or explanations, which, if necessary for the proper understanding of the project, should be included in the corresponding sections of the text.)

II. Schedule of loan disbursements, repayments and interest

(Lender 1) (Year) (Year) (Year) (Year) etc.

Disbursement
 Repayment
 Amount outstanding year-end
 Average amount outstanding
 Interest (\$)

(Lender 2)

Disbursement
 Repayment
 Amount outstanding year-end
 Average amount outstanding
 Interest (\$)

Note: This exhibit should be included only for projects financed by a number of loans with different disbursement, grace period and repayment schedules. Totals for disbursements and repayments should correspond with totals shown in annex IV; totals for interest should be calculated on average outstanding balances.

Annex I

Basic economic statistics in (country of project)

Name of company
 cost of project and sources of financing
 (Unit of currency)

Cost of project			Sources of financing		
Actual ^{a/} (Year)	Expansion ^{b/} (Year-year)	Total ^{b/}	Actual ^{a/} (Year)	Expansion ^{b/} (Year-year)	Total ^{b/}
<u>Fixed assets^{a/}</u>			<u>Equity^{a/}</u>		
Land				
Civil works				
Equipment and machinery				
Installation costs			Total non-CIC equity ^{a/}		
<u>Deferred assets^{a/}</u> (show breakdown)			CIC ^{a/}		
<u>Net working capital^{a/}</u>			Total equity capital ^{a/}		
			Paid-in surplus ^{a/}		
			Past retained earnings and reserves ^{a/}		
			<u>Tax debt^{a/}</u> (show breakdown)		
				
				
				
			Cash generation ^{a/}		
Total cost of project:			Total sources of financing:		

a/ For existing projects only. Data for column "Actual" should be taken from latest balance sheet (see annex V). Data for column "Expansion" should reflect gross investment in fixed and deferred assets at cost, undepreciated. If investments are carried out over a number of years, the amounts shown under "Expansion" should be the addition of the figures for all the years for each item. Similarly, under "Sources", term debt should be included in the column "Expansion" for gross new financing that will be obtained, without taking into account repayment. However, in the case of revolving facilities, only net amounts should be included (for example, banks showing deposits and bonds as sources of financing). The "Expansion" columns should include any investments realized and funds obtained between date of latest balance sheet and time of preparation of investment document.

b/ For existing projects this column is an addition of the "Actual" and "Expansion" columns. For new projects the word "Total" is eliminated. In this case also investments in fixed and deferred assets should be taken at gross amounts, undepreciated, for the whole period of realization of project. Term debt is also taken at gross new financing obtained, without taking into account repayment (but see exception in preceding note).

c/ As discussed under section 4, "Technical review".

d/ According to breakdown and as discussed in section 5.3 "Working capital requirements".

e/ At par value. Free shares given in exchange for promotional or other efforts should have their counterpart under "Deferred assets". If existing shares change hands, such transaction should be shown as an increase in shares held by certain shareholders and a decrease in holdings of others.

f/ Cash paid into company in excess of par value of shares issued.

g/ For existing companies only. Amount shown in latest balance sheet should be inserted in column "Actual". No entries should be made under "Expansion".

h/ For existing projects column "Expansion" should show gross new term debt taken up to finance the project, without considering repayment. In case of a revolving debt facility, maximum draw down should be shown. Figures should coincide with those discussed in section 5.4, "Project financing". For new projects same applies but figures will be booked in the only column shown.

i/ Balancing item "Cash generation" shows only that part of retained earnings and depreciation/amortization that will be needed to complement project financing. Note that a project will normally have a higher cash generation than the amount shown in this annex, the difference being applied to paying off term debt and paying out dividends. Note that this item may be negative, in case more term debt is taken on than necessary to complete the additional investment in fixed assets, deferred assets and net working capital (e.g. when part of new term debt is used to pay off old term debt).

Annex II

Name of company

Earnings (P and L) statement

Actual a/
(5 years)

Projected b/
(5 years)

Sales

Product A

Product B

Total sales

Less sales tax

Total net sales

Operating expenses c/

Manufacturing expenses
(show breakdown into main
categories)

Administrative expenses

Selling expenses

Financial expenses d/

Total operating expenses

Operating profit

Interest on term debt

Depreciation and amortisation

Other income e/

Before tax profit

Income tax

Net earnings

Operating profit as % of net sales

Net earnings as % of net sales

Net sales/average total capital employed

Net earnings as % of average total

Equity employed

Notes: a/ For existing projects only. If possible, for 5 years.

b/ Five year projection or longer if project has long gestation period.

c/ Excluding depreciation and amortisation. The text of the investment document should show a breakdown of operating expenses in variable and fixed expenses for a representative year (see section 5.5.2. "Sensitivity of projected profitability to non-currency factors").

d/ Related to working capital financing. Should be netted out with financial income generated on receivables etc., if any.

e/ Non-operating income. Operating income should be shown together with sales on top of the earnings statement. Financial operating income like interest on receivables should be netted out with financial expenses.

Annex III

Name of company

Sources and uses of funds

	Actual ^{a/} (5 years)	Projected ^{a/} (5 years)
<u>Sources of funds</u>		
Equity		
Term debt		
.....		
.....		
.....		
.....		
Net earnings (loss)		
Depreciation and amortization		
Total sources		
<u>Uses of funds</u>		
Fixed assets		
Deferred assets		
Net working capital ^{d/}		
Repayment of term debt		
.....		
.....		
.....		
Dividend payments ^{e/}		
Total uses		
Cash surplus (deficit) ^{f/}		
Accumulated cash surplus (deficit)		
Potential dividends ^{g/}		
Accumulated cash surplus after dividend		
(Debt repayment coverage ratio ^{h/})		

^{a/} For existing companies only.

^{b/} In countries where historical financial statements have been affected by inflation the columns for "Actual" should be foreseen with a footnote reading "Discrepancies between totals and with corresponding balance sheet figures are due to the effects of inflation".

^{c/} Start-up period may be decomposed in quarters or semesters, if relevant. More years should be projected if project has a long gestation period.

^{d/} If net working capital is reduced, a negative figure should be included in this line.

^{e/} For historical columns only. For projection period, see bottom lines.

^{f/} Historical columns close without surplus or deficit. A change in company's historical cash balance, if any, is reflected together with other changes in "Net working capital".

^{g/} At 100 % payout of net earnings if cash is available, unless different paid out policy more probable.

^{h/} (Net earnings plus depreciation plus amortization) x 100/repayment of

Annex IV

Name of company

Comparative balance sheets

	Actual ^{a/} (5 years)	Projected ^{b/} (5 years)
<u>Current assets</u>		
Cash for working capital ^{a/}		
Account and notes receivable		
Inventories		
Other		
Total current assets		
<u>Current liabilities</u> ^{d/}		
Accounts and notes payable		
Bank financing of working capital		
Accruals		
Other		
Other current liabilities		
Net working capital		
Fixed assets, net		
Deferred assets, net		
Other assets		
Total capital employed ^{e/}		
Accumulated cash surplus after dividends ^{f/}		
Total capital employed and accumulated cash surplus		
Term debt ^{g/}		
.....		
.....		
.....		
Total term debt		
Net worth		
Capital		
Retained earnings		
Total net worth		
Total equity employed ^{h/}		
Total term debt and net worth		
Total assets = total liabilities and net worth		
Quick (liquidity) ratio ^{i/}		
Current ratio ^{j/}		
Debt/equity ratio ^{k/}		

^{a/} For existing companies only. Data taken from historical balance sheets.

- b/ Five years, or longer if project has long gestation period.
- c/ For "Actual" columns historical cash balances. For "Projected" columns target cash balances for working capital.
- d/ Excludes current portion of term debt.
- e/ Equals net working capital plus net fixed assets plus net deferred assets plus other assets.
- f/ After dividends projected in annex IV.
- g/ Includes current portion.
- h/ Equals net worth minus accumulated cash surplus after dividends.
- i/ Cash for working capital plus accounts and notes receivable/current liabilities.
- j/ Current assets/current liabilities.
- k/ Term debt/net worth.

Checklist for lending operations and 10 basic steps in lending

The following notes relevant to the day-to-day work may be of interest in lending activities. They are presented in no particular order.

1. The longer it takes to close a loan the more likely it is that the customer will try to ease the terms and the more profit margins will recede. You should try to make the terms of a loan clear at the outset and stick by them to encourage a quick decision by the customer.
2. If possible it is always a good idea to recapitulate at the end of a meeting the terms and scope of any discussions. A minimum requirement is a report for your own files.
3. Remember you are always lending other people's money. All sources for short and medium-term loans are banks that have given you credit lines.
4. Don't accept a customer's requirements as necessarily true. If he asks for five years' credit, ask him to prove that he needs it.
5. Always try to visit the office/plant of your customer and, apart from the figures, analyse:
 - (a) The state of the company: its appearance;
 - (b) Its management;
 - (c) The appearance of its product.
6. Discourage roll-overs from the start.
7. Never make a firm offer without putting a terminal date on it.
8. You should obtain a readily marketable security for all loans if possible. Shares of a speculative nature or of the company you are lending to are basically bad security.
9. If you take shares as a security, you must watch the prices, and at the time you set up the security make sure the customer knows he will have to maintain an adequate margin of security if the price drops. A spread risk is generally better.

10. Bearer shares should at all times be most carefully stored as they are virtually cash. Shares having a liability in respect of uncalled capital should never be accepted.
11. Warehousing of security is adequate only when:
 - (a) You know the warehouse;
 - (b) Its reputation and honesty are undoubted.
12. Liens on machinery are not ideal security since frequently they are difficult to sell. Never take a margin of under 175%.
13. Look very carefully into trade bills given as security. They should never exceed 6 months and the drawees should be of suitable quality. They should represent genuine trade transactions.
14. When granting or thinking of granting a loan, look at the existing exposure you already have. Have its terms been absolutely complied with? With the new loan is the total too much exposure for one company? If there is a guarantor, ask the same question of the guarantor.
15. Keep an eye on overall country exposure and its relation to CIC's balance sheet and the country's political/economic situation.
16. Loans to companies owned or controlled by government officials or highly placed political individuals should be avoided.
17. If management of a company is very old, is there a competent second line?
18. Always keep abreast of your borrower's affairs.
19. If you must take security in the form of stock, examine it at frequent intervals and check that good accounting records of the fact are up to date, noting your interest.
20. If you are in doubt, do not be pressed to take a rushed decision on a new loan. If it is a matter of "life or death" for the customer, it is probably a bad risk.
21. Do not discuss firm details of any loan until you have received all the information you think you need to take a fair decision.
22. Try to take a decision to renew a loan or not prior to the customer's asking you and certainly well before maturity.
23. In general, do not offer to renew a loan. Wait until the customer asks.
24. Never negotiate a second loan or renew an existing one until the terms of the first loan have been entirely complied with.
25. Try to give a customer fair warning of forthcoming principal and interest payments. If you are intending to cancel a facility, give as much warning as possible.
26. Always ensure that any guarantee overlaps the maturity date of the loan it is guaranteeing.
27. Always keep up to date on guarantors.
28. Anyone hearing of fraud or other criminal offence relating to any customer or employee of a customer should make sure all interested parties know about it and that a note goes in the file.

29. Avoid anything but a first mortgage.
30. Make sure mortgaged property maintains its value in relation to the loan it is securing.
31. Always try to get an independent valuation of the customer's expense of property to be taken as security. Always take a look at the property yourself and make sure you are being shown the right property and not a substitute.
32. Always check that full insurance coverage is available on premises of customers about to receive your money.
33. Five basic questions

When talking to a potential client for a loan the first thing to find out is what business he is in, and the second is to ask to see his most recent balance sheet. There are then five basic questions which need to be asked (and answered) before a loan request can be considered. These five questions are:

- (a) How much money is wanted and when is it needed?
- (b) What is it wanted for? This question should always be answered in some detail, and in particular the answer "working capital" should not be accepted. As a distinguished colleague has pointed out, working capital is often the name for the difference between what a company had hoped to earn and what they actually lost. In order to understand a borrower's answer it may be necessary to appreciate the buying/processing/selling cycle, including the capital needs at each stage, and current methods of financing;
- (c) For how long is the loan required? Basically there are two types of loan - a loan to finance fixed assets with a fairly long life and a loan to finance the production cycle that may not be for longer than the production cycle itself. The longer the loan period the greater the chance of something going wrong;
- (d) How does the customer intend to repay the loan? The most frequent answer is "out of future profits", which is the ideal opening for a request to see profit and cash flow projections over the proposed loan period. These should naturally be compared with the actual profits of past years and be accompanied by searching questions on the assumptions underlying the projections;
- (e) What security is offered? The frequent answer "what do you want" provides an opening to review all the company's existing borrowings and the security (or outside guarantees) which it enjoys.

34. Remember that for term loans working capital should grow during the life of the loan or else you have put the company in a straight jacket.
35. A cardinal sin in banking is financing long-term obligations with short-term finance.
36. Watch your debt/equity ratios. Is there sufficient capital support so that the borrower takes the risk and not CIC?
37. Have you made sure the customer realizes he pays all:

Legal expenses

Incidental expenses related to loan

Stamp duties

Withholding and other taxes on interest or commission payments

Losses through exchange differences.

38. Always give the tender as much notice as possible of disbursements which may be required.
39. You can prove anything with figures. Always look behind the figures to support the assumptions.
40. Learn to judge risks and their relation to the reward, i.e. profitability.
41. Watch out for guarantees given by holding companies, particularly if there is a close or interdependent trading interest. The same care is necessary with sister companies. In case of doubt get the guarantee of the parent company's bank.
42. Profits in a balance sheet rarely appear as cash, and then only fortuitously.
43. It has been said "accountancy is a strange mixture, being neither altogether a science nor altogether an art, so that it is not surprising if at times we are inclined to regard it mainly under the former aspect and consequently tend to attach an absolute value to our statistics and indices". Figures do lie.
44. Solvency can mean two things:
- (a) Solvency to pay debts as they come due;
 - (b) Solvency where assets would sell enough to pay all liabilities.
- An up-to-date cash flow can show you (a) and an up-to-date balance sheet, (b).**
45. If a customer tells you that he will repay the loan from trade returns, you should be doubtful because what he gets back he will probably need to keep the business going.
46. Good experienced judgement and the ability to stand back and look objectively at a deal in which you are involved is an important asset to a lender of money.
47. Balance sheets are prepared to show a position at a particular point. Such accounts do not provide answers; indeed they are most useful in suggesting the questions you should ask your customer.
48. How do bad debts arise?
- (a) Excessive lending in relation to the security given;
 - (b) Insufficient control and policing of a loan after disbursement;
 - (c) Incomplete knowledge of a customer's activities;
 - (d) Bad judgement. This is an error that may always be made even though the initial analysis was inadequate.
49. In all loans make sure the borrower realizes that the deal is subject to contract which will be prepared by the company's lawyers.

50. Get into the habit of making a short note for the files of every meeting you have with a customer or potential customer. You should make it possible for a successor to continue negotiation by reference to the files only.

On the other hand, do not be misled by a customer's telling you what went on at earlier meetings. Negotiate on the basis of what is documented in the file.

Attachment: Ten basic steps in lending

<u>Basic steps</u>	<u>Action</u>
1. Initial discussion (memorandum of initial discussion)	State needs and give background. Summarize results of discussion, include comment.
2. Financial statements and further information	Provide basic information required for credit analysis. Information processed for credit analysis.
3. Credit analysis, investigation and final loan discussion	Provide answers to questions arising from analysis. Settle final details of loan proposal.
4. Basic legal aspects: security, insurance, tax and remittance considerations	Determine appropriateness of assets and legal security format, proper insurance coverage, tax and remittance considerations.
5. Formal authorization (authorization document)	
6. Letter of offer	Set down the offer with all the conditions and formalities. Return the letter signed in agreement.
7. Disbursement stand-by	Advise CIC treasury.
8. Legal documentation securities and contracts	Prepare all legal documents, contracts, notes etc., and register them with government authorities.
9. Disbursement	Disburse according to instructions.
10. Loan control information	Specify loan control procedures.

Guideline for management evaluation

Purpose: This guideline provides an analytical framework for management evaluation. It should be used in the analysis of investments relating to expansion or the turn around of existing companies. The evaluation should make possible answers to questions such as, how has management performed so far? How is the present situation: is the organization structure basically sound, are

organization procedures effective, and does the company have the right people in the right places? And, most important, how is this management, with the present structure, procedures and people, likely to perform in the future, given the specific challenges with which the company is confronted?

I. Preliminary determinations

1. Obtain insight into the operation of the firm and its product mix.

1.1 Define company's operations geographically and functionally.

2. Obtain insight into principal medium-term objectives and the plans and programmes conceived by top management to reach these aims.

Conclusion: This part should lead to the identification of the main organisational characteristics of the company and of main problem areas apparent from past performance. This section should also make clear the positive achievement in recent years, reflecting management capabilities, such as their success in identifying needs which the company may satisfy profitably, in choosing the right markets and marketing approach, in building or strengthening the organisation, in attracting good personnel and molding it into a team etc.

II. Organization structure

1. Obtain organization chart. If no organization chart is available, try to construct one based on actual situation.

2. Evaluate general outline of organization in view of company's characteristics and objectives.

3. Obtain position descriptions, if available.

4. Evaluate adequacy of structure and manning.

5. Evaluate proposed changes in connexion with the project for which CIC's commitment is requested.

Conclusion: This section should lead to an assessment of the organization structure as it is at present and of the adequacy and advisability of proposed changes.

This evaluation should lead to distinguishing strong and weak elements in the organization. In particular, it should make clear who makes the organization go, takes initiative, comes up with good ideas. It should contain an evaluation of the adequacy of the management team in view of the proposed project and should point out on whom the success of the project depends.

Monitoring guideline and its preparation

Objective

The monitoring system should signal to CIC at an early stage the deviations from projected values for critical variables in each operational investment. As such, the monitoring system is a tool for investment management.

Characteristics of data to be included in monitoring sheets

In preparing a monitoring sheet for a particular project, the investment analyst should select variables that satisfy the following requirements:

1. Critical factors. The variables should be of critical importance to the project's success. They should be determined for each project individually, taking into account its special characteristics.
2. Quantitative data. Only measurable variables can form part of the monitoring system proper. If important qualitative factors are foreseen in the project, their relevance should be spelled out in the explanatory comments (see below).
3. Monthly reportable. The data should be reported on a month-by-month basis.
4. Immediately available. Data should be available immediately after the end of each month. For that reason no data should be listed that require prior closing of the company's books, which normally involves delays. You should rather select items which the company can be expected to administer on a daily basis. Examples: you should not include in the monitoring data net profit or total production costs (which normally require prior closing of books), but you may include sales or average rejection rate in production, if relevant.
5. Limited number. The number of data to be reported should be kept at the minimum required to obtain a rough idea of where the company is going. Normally this number should not exceed 6 to 8.

Targets/projections

In order to make the monitoring meaningful the data to be reported should be compared to certain targets or projections. The draft monitoring sheets should contain such figures based on the draft investment document projections. Of course, target/projection figures may have to be changed afterwards and if the need for revision can already be foreseen at the time of preparing the draft monitoring sheet, this should be pointed out in the explanatory comments. Target/projection figures should normally be specified per month, especially if significant deviations from the yearly average can be foreseen (e.g. seasonal fluctuations, gradual increases in volume during the year).

Prior year. Apart from comparison with target figures, the data reported will be compared with prior year figures. Draft monitoring sheets relating to investments in existing companies should include these historical data.

Explanatory comments

The draft monitoring guideline should contain any explanatory comments necessary for the correct interpretation of the items listed. Monitoring sheet plus explanatory comments should be a tool that can be used by investment management without further reference to the investment document or to the files.

Pre-operational monitoring

For projects with a considerable pre-operational period a separate monitoring sheet covering the whole pre-operational period should be worked out. The procedure is the same as the one listed above.

III. DEVELOPMENT PRIORITIES FOR CIC

"Normal" activities of CIC

As a development investment organization responsive to the needs of the ECCM region, CIC will continue to receive and process a multitude of project proposals. Many will come to CIC unsolicited, proposed by private investors seeking financing for new ventures or for expansion of existing enterprises. Many will arise out of field trips and visits by the CIC staff when new projects will be mentioned to them. Some may be referred to CIC by other regional lending or financial institutions, public or private, and some proposals may be referred to CIC by government sources in the region.

CIC will have to appraise the potential and basic feasibility of all of these, hopefully processing only those proposals which may warrant the expense and time of an in-depth analysis (see the recommendations in chapter II regarding certain cut-off points in the evaluation procedures).

Aside from these "normal" activities, however, CIC must assume an active promotional role in projects with potential development impact in what it considers priority areas. To this concept the following section will be addressed.

Development activities of CIC

Regional planning and development authorities have been established and organized in the Eastern Caribbean.

The ministerial councils of the Caribbean LDCs take resolutions on economic development priorities. Certain industries are "allocated" to certain islands. Regional lending institutions (i.e. CDB) receive economic development planning outlines from member Governments as back-up for loan programmes, and CDB actively identifies and develops infrastructure programmes and regional joint ventures.

In answer to the questions of how to mobilize the private sector to move into industry and agribusiness, how to make general economic planning a concrete commercial reality and how to multiply the private development effort with successful demonstration and pilot projects, CIC acts as development planner and catalyst:

- (a) By setting practical and realistic priority programmes, logically oriented and compactly grouped for maximum impact;
- (b) By gathering data on know-how and technologies adequate to the projects on the agenda, enlisting the technical and know-how support of international institutions, the United Nations system, regional institutions and public and private sources in countries where similar projects are operating successfully;
- (c) By preparing project profiles, feasibility studies and presentations to prospective investors;
- (d) By putting together viable capital structure for new projects;
- (e) By finding local equity participants and management groups;

(f) By identifying and, if necessary, enlisting the help of foreign technical or know-how partners for individual projects;

(g) By setting up monitoring systems and guiding the new enterprises, during construction and start-up time, as well as supervising investment of CIC throughout the time it remains as a capital participant.

These tasks are complex, difficult and novel for CIC, but they must be tackled successfully if CIC is not to be a passive recipient but an active and responsible promoter of projects which it considers of general economic development impact, in congruence with national and regional development priorities.

In the next section an attempt is made to set out development programmes, grouped under priority headings, of 22 projects that are estimated by the consultant to offer immediate, realistic and practical possibilities of implementation together with responsible and capable private local partners with ready access to international know-how and intermediate technology suited to the tasks at hand.

To put these proposals into a framework of economic priorities, some brief background remarks will suffice.

Economic background

The ECCM area is small, markets are fragmented, and industrial infrastructure and efficient inter-island transport are practically non-existent. The islands, formerly under British colonial administration, were highly specialized monocultures supplying the United Kingdom with agricultural products (sugar, rum, cotton, bananas, cocoa, spices).

With the advent of low-cost production of these products in other areas, and with the declining British desire to subsidize these economies, agricultural output dropped to one half in the past 10 years.

Simultaneously, tourism began to rise to the point at which it is presently the dominant new source of revenue. Tourism has drawn away agricultural labour at higher wages, initiating a migration away from agriculture, thus further contributing to lower output.

The income from tourism however, is largely spent to import the food and consumption articles used by hotels. Thus, tourism has not had, as yet, a significant development effect on the host economies (steaks are flown in from New York, chickens from Miami etc.).

According to data cited by the International Development Agency (IDA) on tourism in the Caribbean (Report No. 566a, 9 June 1975), the "leakage" to imports for every tourist dollar spent ranges from 40-50 cents, a figure which definitely seems low.

At the same time, some important agricultural export commodities continue to be exported without local processing (cocoa, spices etc.).

Past efforts at industrial development

In 1972/73, the Economist Intelligence Unit (EIU) was engaged by the CDB to undertake a comprehensive review to identify and study in a preliminary way new projects that would be interesting to ECCM countries. The list of the projects identified by EIU appears in a following section.

This effort was certainly most useful and EIU not only provided several concrete project suggestions, but also compiled good economic background information.

The EIU work did not focus, however, on the identification of projects or project chains which would provide:

- (a) Backward linkage from tourism to agriculture and handicrafts;
- (b) Integrated development of agriculturally based projects to lessen the region's heavy dependence on food imports;
- (c) Agro-based export industries.

In practice, the EIU suggestions for industrial projects have largely remained unrealized.

Unless CIC actively promotes new project development, ECCM ministerial resolutions on development priorities will remain pipe dreams so far as non-infrastructure projects are concerned. In the following section there is a list of the areas of project development in which CIC should take a leading role in the study promotion, organization, initiation and monitoring of new ventures.

Proposed project development list

Guiding principles. The guiding principles used in setting up the following priorities list were:

- (a) Utilization of local resources;
- (b) Multiplication potential of projects for maximum employment effect;
- (c) Linkage effects on the creation of new related activities with secondary production and employment effects;
- (d) Congruence with regional and national economic development priorities;
- (e) Low capital investment per work place.

For any new project to take hold, however, there has to be a "demand pull" allowing it to reach break-even volume.

Such demand pull for local agricultural and industrial activities is exerted by:

- (a) Demand emanating from tourism;
- (b) Import substitution of food items and agricultural inputs;
- (c) Potential export markets.

Furthermore, projects selected will have to have the scale and technology adapted to the region's small markets, limited reservoir of trained manpower and scarce capital resources.

The usable resources of the region are land, climate and work force (to a limited extent also the ocean fishing resources). The initial demand pull comes from tourist consumption and from food import substitution. Thus, the orientation of the priority programme is towards opportunities in agriculture and food production.

The demand pull of tourism may be illustrated by:

(a) The increase from 140,000 tourist arrivals in the ECOM area in 1968 to over 300,000 today;

(b) The increase of tourism foreign exchange earnings in LDC countries from \$US 31 million in 1972 to about double this figure currently (IDA estimate).

The import substitution potential for food is substantial. Present imports to the CARICOM region surpass \$US 1,000 million per year. As an example, reference can be made to the CARICOM studies undertaken in relation to the regional food plan. To illustrate, for St. Lucia CARICOM data for 1973 (used in the 1975 "Regional Livestock Complex" study) show meat imports of beef of only 700,000 pounds; but the Government of St. Lucia gave figures for 1975 of 1.5 million pounds of meat imports. This is equivalent to the total weight gain per annum of approximately 1,000 head of cattle under normal grazing or feeding conditions, requiring anywhere from 400 acres upwards depending upon the grazing and fattening methods used.

The secondary effects of this activity are the creation of the following related types of projects:

- (a) Slaughtering and meat-processing facilities;
- (b) Cold storage;
- (c) Cattle-breeding establishments for livestock improvement;
- (d) Dairy operations;
- (e) Hides processing and tanning;
- (f) Leather industries;
- (g) Agricultural employment in legumes production;
- (h) Seed-growing for pastures and legumes;
- (i) Demand for feed products;
- (j) Stimulation of utilization of agricultural waste materials for animal feeding.

Thus, the priority projects have been grouped under the following headings:

- Agribusiness
- Agro-export
- Other industries
- Tourism supplies

Additional reasons for project selection were:

- (a) That these projects fitted into the national economic development priorities of the ECOM Governments as, for example, contained in the presentation on national economic priorities made to CDB by these Governments;

(b) That the projects fitted into a well-reasoned programme approach, instead of constituting isolated efforts at promotion of individual, non-interrelated projects. This, in turn, means that the following project development economies may be achieved:

- (i) By building up a common data base for basic statistics on agriculture, land use, grazing methods, feed mixtures, food processing, tourism sector consumption patterns and demand structure etc., utilizable for a large number of new projects;
- (ii) By building up systematically some in-house knowledge and expertise within the operational staff of CIC which would help to facilitate evaluating and monitoring such projects;
- (iii) By multiplying potential for individual projects with corresponding economies in evaluation and implementation;

(c) That there are a large number of technical studies on cattle raising feedlot operation, animal feed production, pig farming, chicken farms and other of the recommended projects readily available from Brazil, Colombia, Cuba, Dominican Republic, Jamaica, Mexico, Venezuela and Central America. This means that there is immediate access to successful experience in other tropical environments, and that the ECCM countries do not have to experiment and invent, but can utilize practices developed in other economies of similar structure and climate;

(d) That this, at the same time, means there is access to adapted, intermediate, developing-country technology, instead of having to "scale down" and to adapt industrialized country practices and technologies, which is a much more costly and time-consuming process.

Project development list proposal

A. Agribusiness

1. Cattle raising for meat production from agricultural wastes, sugar cane, legumes and pasture
2. Feedlots for cattle
3. Pig farms and processing
4. Chicken farms
5. Meat packing and slaughtering plant with cold-storage facilities for meat supply to hotels and restaurants
6. Animal feed mill
7. Margarine and shortening plant on basis of coconut oil
8. Coir fibre processing
9. Coconut plantations and shredded coconut production
10. Fish-filleting and processing facility
11. Fruit and vegetable canning

B. Agro-export

12. Cocoa processing in Grenada for export
13. Spices processing for export
14. Honey production for export
15. Cashew nuts and similar products, plantations and processing
16. Arrowroot production and processing

C. Other industries

17. Fertilizer-mixing plant for island agriculture
18. Utilization of local timber resources
19. Development of totally new types of low-cost inter-island sea transport

D. Tourism supplies

20. Pottery
21. Garments (beach and casual wear and hotel uniforms)
22. Costume jewellery

Brief rationale for projects selected

1. Cattle raising for meat production
2. Feedlot operations
3. Slaughtering, meat-packing and cold storage facilities

These projects, which can be executed in three basic configurations, will eliminate the total dependence on imports of the tourism sector on the islands. Such dependence is an especially unwarranted situation given the possibilities for organizing locally a completely satisfactory meat supply.

The three configurations for cattle-raising projects are:

- (a) Highly specialized feedlot operations based on sugar-cane feed, molasses or other types of concentrated feedstuffs;
- (b) Integrated agricultural projects covering feed production (sugar cane and legume growing) and rotating-pasture practices;
- (c) Simple small-acreage rotating grazing projects with legume growing for small and medium-sized producers with an absolute minimum of capital investment and a minimum dependence on industrialized inputs.

The slaughtering, meat-packing and cold storage facility could be centrally located to serve jointly all three types of cattle projects described above. The potential secondary effects of these projects are described in the preceding chapter.

4. Pig farms and processing
5. Chicken farms

The basic rationale is the same as for the cattle-raising projects: eliminate foreign-exchange-consuming imports by engaging in low-cost local agricultural production.

Both types of projects call for experienced operators, in chicken farms because of the importance of disease control and feed mix, and in the pig-farming operation because of feed costing and developing local low-cost feed based on the particular agricultural wastes accruing on each island in totally different forms and from different origins (bananas, sugar cane etc.).

The pig-farming project should be organized in conjunction with the existing St. Vincent meat packers operation specializing in pork processing in which CIC holds a participation.

6. Animal feed mill

This project would be an important link between cattle feedlot operations and chicken farms. If the St. Vincent regional project should fall through, CIC should be ready to support the St. Lucia project.

7. Margarine and shortening from coconut oil

8. Coir fibre processing

9. Coconut plantations and shredded coconut production

At this time, there are several installations for coconut oil production on the islands, some of them shut down, some of them operating marginally and only one operating on a commercial basis. There are no coir fibre plants anywhere on the islands.

Previous studies (by the EIU in 1973) indicated that the shortage of supply of coconuts would not allow such industries to exist.

This conclusion needs to be re-examined. Experience in the Philippines and on the Mexican coasts of Campeche and Yucatan have shown that well-tended coconut plantations can be operated at low cost and with a minimum of capital input. Therefore, the backward linkage of oil and fats to coconut plantations has to be examined on a systematic basis. The fly-over inspection of growing areas in St. Vincent and St. Lucia shows substantial increases in plantation of coconut palms. Another interesting project with potential export markets in the United States and Europe would be the production of shredded coconut for making candy, which is already successfully done in the Philippines.

10. Fish filletting and processing operation

The proposal is to initiate this project on a modest scale by producing "convenience" fish products for hotels and restaurants on the major touristic islands.

Presently, the island fishing activities are concentrated in small fishing villages where only a small portion of the catch goes for use in the cities and tourism centres. At the same time, the fish content of hotel menus could be raised substantially if fish products were offered in a form convenient for avoiding labour-intensive preparation in the hotel kitchens. Thus, a fish-processing facility would begin with fish fillets, fish sticks and fish salads, without canning, but only with processing, cold storage and a well-organized distribution system.

The operations would have to be limited in size to accommodate each island's own tourist, hotel and restaurant demand because of the prohibitive inter-island shipping costs for cold or frozen fish products.

11. Fruit and vegetable canning

This type of project was considered not feasible by the EIU in 1972 for the following principal reasons:

- (a) Insufficient and unreliable raw material supply;
- (b) Prohibitively high cost of local fruit and vegetables;
- (c) High can costs;
- (d) Utilization of many varieties.

Some of the basic assumptions and data of the EIU study need to be questioned and revised, however, in the light of the following developments:

- (a) The emergence of the massive tourism market in the EECM area. Evidently, this makes for a substantial demand increase for fruit and vegetables in hotels and restaurants;
- (b) Significant increase in vegetable production in some EECM territories in the last four years, leading to lower prices;
- (c) The availability of buildings and installations that are lower cost than those contained in the EIU study.

Therefore, small canning projects on St. Lucia, St. Kitts, Grenada (existing operation), Dominica, St. Vincent and possibly Montserrat should be studied.

12. Cocoa processing in Grenada

Grenada produces 3,000 tons of high-grade cocoa, presently exclusively sold as beans, principally via United Kingdom brokers. If the cocoa were processed locally into cocoa blocks, and perhaps at a later stage into cocoa butter and cocoa powder, a significant increase in local value added could be achieved, while at the same time broadening the export markets to include, for example, the Federal Republic of Germany, the Netherlands and the United States.

Preliminary investment estimates have been received for manufacturing installations. The next step will be for CIC to negotiate with the Government of Grenada to see whether an in-principle interest can be developed. Because of the way the Grenada cocoa industry is organized, the cocoa-processing venture could probably best be structured as a three-way venture between a local co-operative of growers, CIC and a foreign technical and know-how partner.

13. Spices processing for export

Like cocoa, spices are presently exported in raw form, without processing and without local value added. With low investment, this industry could be established in the spice-growing areas of the EECM market.

14. Honey production for export

The rise of Mexico to its present position as the largest honey exporter in the world, especially to Europe, shows the way in which this activity can be organized in a developing country.

Specialized know-how from Mexico's leading firm is available, and honey production is a low-capital activity with high potential returns and an assured export market to present German importers of Mexican honey who cannot obtain sufficient supplies.

15. Cashew nuts and similar items

The same arguments as above hold here, with one added difficulty: at present, cashew trees are not plantation-cultivated and widely dispersed. The possibility of plantation cultivation must be examined on the basis of experience in other countries.

16. Arrowroot growing and processing

Arrowroot pulp has recently found a highly specialized market in the manufacture of computer paper. Present buyers have indicated their desire to increase buying volumes. A technical problem to be resolved is how to provide a simple mechanical device to aid in root harvesting.

17. Fertilizer mixing plant

Here, the cost and price data of the 1972 EIU study have to be updated to determine whether local mixing can result in lower cost than imported ready-mixed fertilizer. Since the predominant consumer would be the banana industry, which is already struggling as a result of its competitive cost disadvantage in markets of Central America and Ecuador, fertilizer inputs must not push up the export price of bananas.

Preliminary cost figures in the CDB project outline for fertilizer bagging, dated 23 July 1976, show substantial cost savings, but price, investment and processing cost data require careful revision and much more substantiation than has been provided up to now. If the feasibility of the project is established, and if WINBAN will support it, CIC should become a capital participant in the project.

18. Utilization of local timber resources

This project would probably have to be limited to Dominica, although exploitable resources also exist on other islands. Such projects would seem to have to be coupled, though, with import restrictions for furniture, especially in new hotel projects in which the tendency towards turnkey import supplies is still unrestricted although good and attractive local wood is available at reasonable cost.

19. New types of low-cost inter-island sea transport

The dynamic development of intraregional trade is vitally dependent on the development of low-cost types of sea transport to link the islands. Certainly, there seems to be a wealth of ideas and experiments along these lines in other parts of the world, but thorough search is required for concepts, ideas and practical realization in other parts of the world in order to arrive at a comparative evaluation of low-volume, low-cost sea transport systems suited to use in the Caribbean.

20. Pottery

21. Casual garments and hotel uniforms

22. Costume jewellery

These are only a few of the "traditional" tourist supply industries. Low-volume technology and marketing know-how are abundant in Mexico, some right on neighbouring Barbados.

Table 1. Classification of industries for promotion in LDCs

<u>EIU I. Larger CARIF^{WA} market (C) and export industries (E)</u>	<u>SIU III. Possible new ECCM industries</u>
Bicycles (C) Builders hardware (C) Canning fruit and vegetables (C) ^{2/} Ceramics (C) Domestic electrical accessories (E) Electronics (E) Footwear (C) Garments (E) Handtools and cutlery (C) Jewellery (E) Leather goods (E) Sports goods (E) Toys (E)	Aluminium products Animal feedstuffs *Automobile components Banana fibre *Brooms, brushes and mops Cement bagging Clay bricks, blocks and tiles *Clocks - alarm and kitchen *Coir fibre *Drinking straws Flour milling Galvanized products Glass and glassware *Hats and caps Leather tanning Plastics Sails for yachts and boats *Umbrellas *Wire products
<u>EIU II. Existing ECCM industries with potential for expansion</u>	<u>EIU IV. Industries which do not appear to have potential at present (or are under separate investigation)</u>
*Beer *Biscuits Boat building Canning and bottling *Cigarettes Cloth printing *Concrete blocks, tiles and pipes *Copra-based products fibre-glass buoys etc. Foundry industry Furniture - wood and metal *Garments Industrial gases *Mattresses Milk reconstitution or pasteurisation *Packaging materials and containers	Asbestos roofing Baby foods Buttons Caneboard Cement manufacture Chemicals for industrial use Cosmetics from local oils Dominican timber - sawmill and veneer mill Dominica timber - wooden building section - standardized pre-fabricated Dominican timber - wooden furniture, standard design Dry cell batteries Electric neon signs

EIU II. Existing ECOM industries with potential for expansion

- *Printing works
- Ready-mix concrete
- *Soft drinks bottling
- Spices and condiments
- *Tissue paper products
- Tyre retreading and remoulding

EIU IV. Industries which do not appear to have potential at present (or are under separate investigation)

- Fertilizer mixing
- *Gramophone records
- Ink
- Lead acid accumulators
- Lime juice and lime oil
- Macaroni products
- Matches
- Nutmeg grinding and nutmeg oil distillation
- Paint manufacture or mixing
- Perfumes
- Petrochemicals, fertilizers and detergents
- Pharmaceutical products
- Pumps
- Punched cards
- Refrigerators and air-conditioners-assembly
- Textiles (sales yarn mill)
- Tomato paste
- Transformers - up to 440 volts
- Typewriter assembly
- Types and tubes - rubber
- Wooden furniture - high quality for export

Residual industries (not identified by EIU) listed in annex II of Georgetown accord

- * Rum
- * Other bakery products
- * Handicraft items
- * Pop corn
- * Stationery (excluding continuous business forms)
- * Syrups

Key:

a/ Item not considered feasible by EIU which prepared a prospectus to illustrate the problems associated with the project.

* Item ((*) - par of item) appears in annex II of Georgetown Accord: Industries for Promotion in less Developed Countries (industries listed will not be eligible for incentives in MDCs until 1978).

Source: EIU, Eastern Caribbean and British Honduras Industrial Survey: Final Report, August 1972.

Table 2. Regional production, imports, apparent consumption and demand for livestock products (1,000 pounds)

Livestock products	Estimated production 1973	Imports 1973	Apparent consumption 1973	Estimated demand 1980	Average annual percentage growth of demand
Beef products					
Beef and veal, fresh	40 724	21 447	62 171	92 254	5.8
Corned beef	-	6 424	6 424	8 861	4.7
Smoked dried salted beef	-	4 191	4 191	5 780	4.7
<u>Mutton and lamb fresh</u>	4 753	7 665	12 418	16 563	4.2
Poultry products					
Poultry, whole fresh	107 876	3 990	111 866	173 838	6.5
Poultry parts	-	28 126	28 126	43 708	6.5
Eggs for eating (1,000 eggs)	221 464	3 684	225 148	361 539	7.0
Pork products					
Fresh pork	26 932	2 347	29 279	43 447	5.8
Salt pork	-	10 391	10 391	14 329	4.7
Bacon and ham	-	4 316	4 316	5 952	4.7
Ham (canned)	-	1 993	1 993	2 750	4.7
Sausages (canned)	-	1 717	1 717	2 370	4.7
Dairy products					
Fresh milk and cream	169 552	1 342	170 894	237 277	4.8
Evaporated and condensed milk	-	52 929	52 929	67 797	3.6
Milk powder	-	42 895	42 895	54 944	3.6
Cheese and curd	-	14 593	14 593	19 992	4.6
Other dairy products	-	8 779	8 779	11 244	3.6

Source: Bureau, table 1, demand growth rates estimated by CALSON secretariat.

IV. PROGRAMME FOR PROJECT IMPLEMENTATION

Objectives

The objectives for the implementation programme proposed here are to define detailed action plans for each of the projects listed under the project development programme described in chapter III. These action plans will be based on what needs to be done, and by whom. From them a series of recommendations will emerge on how to organize project development activities, not only within CIC, but also region-wide, and on how to staff, orient and support such activities.

This second part of action planning should then lead to recommendations on how the United Nations system and other development agencies can best cooperate in assisting CIC to do a forward-oriented, well planned and effective job.

Action plans for project implementation

For each of the projects mentioned in chapter III (1-22), the implementation plan will include the following considerations:

- (a) Background information now on hand (in CIC);
- (b) Further data and studies required to determine economic feasibility and operating parameters of the project;
- (c) Execution of, and assistance in, data gathering;
- (d) Sponsors and/or participants in the venture and negotiations necessary to form initial shareholder groups;
- (e) Target date for completion of studies and presentation of investment and financing proposals;
- (f) Planned dates for initiation of implementation and for operational start-up.

Cattle raising, feedlots, pig farm, chicken farm, slaughterhouse, meat-packing and cold storage facilities (1-5)

Information on hand:

- (a) Project outline for integrated operation;
- (b) Project outline and pre-feasibility data on chicken farm;
- (c) Summary of Mexican cattle-raising and feeding projects in tropical areas, operating parameters and results;
- (d) Outline of CDB project proposals by the Jamaican consulting firm of Lambie and Co., for feedlot operation based on sugar cane;
- (e) Project proposal for "beefalo" raising on Troumassee Estates in St. Lucia;

- (f) Full historical and analytical data on St. Vincent Packers, Ltd;
- (g) Outline study for cattle recently carried out by the CARICOM secretariat and dated November 1975. The data used in this report need revision, however, because the basic relationships established between beef and meat production, animals required and acreage necessary do not conform to the parameters obtainable with modern tropical animal husbandry methods.

Work required:

- (a) Technical/agricultural analysis of the following aspects:
 - (i) Availability of suitable land for the different types of projects;
 - (ii) Comparative economic of rotating grazing versus feedlot operations for cattle;
 - (iii) Determination of types of pasture grass, legumes and other feed-stuffs to be utilized;
 - (iv) Selection of animal stock;
 - (v) Costing of all inputs;
 - (vi) Utilization possibilities for existing abattoir versus construction of new facilities, and same for cold storage facilities;
- (b) Restructuring of CIC participation in St. Vincent Packers, Ltd., in order to use this company for integrated pig/pork operation.

Execution and assistance:

- (a) Execution and co-ordination by CIC;
- (b) CIC to obtain technical/agricultural data on cattle projects from CDB, Jamaican Government, Dominican Republic and Cuba (two latter possibly via UNDP), where similar investigations have been carried out.

Sponsors and participants:

- (a) Preliminary agreement by a leading St. Lucia estate owner to participate in first demonstration project and to make available suitable land. This sponsor has offered his co-operation in mobilising other sugar estates to participate in the diversification into cattle raising;
- (b) CIC to activate and co-ordinate: for pig farm, to combine pig-raising operations with existing St. Vincent Packers, Ltd., in which CIC already holds a participation;
- (c) For slaughterhouse, meat packing and cold storage, partnership negotiations will have to depend on exploring whether existing facilities can be used/subcontracted/integrated into the cattle-raising and pig-farming projects (from viewpoints of capacity, sanitary conditions, location etc.).

Target date for final project presentations:

- (a) For cattle-beef operation: 31 May 1977;
- (b) For pig operation of St. Vincent packers: 31 January 1977.

Target date for initiation and start-up:

- (a) Initiation of cattle project on 1 July 1977;
- (b) First commercial sale of meat starting January 1978;
- (c) Chicken farm, St. Lucia or Antigua, 30 June 1977.

Animal feed mill (6)

There is a regional feed-mill project under execution in the ECOM area, thus providing a sound basis for the cattle, pig and chicken projects proposed. The mill is being erected in St. Vincent with a view to supplying the entire ECOM market.

Local businessmen are promoting a mill in St. Lucia.

Work required:

- (a) Review of project information and completion schedules;
- (b) Use of cost/price data as input for chicken farm analysis and for cattle and pig projects analysis.

Execution and assistance:

GIC staff will execute project and provide assistance. Sponsors and participants will be as already defined.

Margarine and shortening from coconut oil, shredded coconut, coir fibre and coconut plantations (7-9)

There is no reliable data on hand regarding crops, plant capacities, status of facilities and market size.

Work required:

- (a) There are copra-processing facilities on St. Lucia, St. Vincent, Grenada, Dominica and Antigua. Some are government owned; several of them have shut down and are in disrepair. The first step would have to be a thorough technical review by a capable engineer to determine processing capacities, reconditioning potential, repair costs, requirements for replacement of equipment, economics and costs of processes used;
- (b) This survey would have to be complemented by data on present coconut supply and on potential of increasing such supply on a short-term basis (the 1972 EIU survey discounted this industry because of inadequate supply, but a recent review of plantations seems to indicate a substantial increase in palm stands since 1970/71);
- (c) Simultaneously, a market study on demand for edible oil, margarine and shortening, coconut meal (for animal feed) and soap would have to be conducted in order to determine the possible volume demand for coconut-based products (including the import substitution potential for oil, margarine and soap);

(d) After completion of this market study, and with plant capacities and technical data on hand, it will then be possible to determine the necessity/possibilities/potential for increasing coconut plantations in an economic fashion (land availability, proximity to processing plants etc.);

(e) The market study should also explore the possible demand for coir fibres as a by-product of the oil mills;

(f) Proper know-how on coir-fibre processing is required (UNDP assistance by reference to Asian or African projects); same for shredded, desiccated coconuts.

Execution and assistance:

(a) The technical study will be undertaken by CIC's technical adviser from Commonwealth Fund for Technical Co-operation (CFTC);

(b) Market analysis will be done by CIC staff;

(c) Agricultural survey on increased coconut plantations: expert assistance desirable on soil conditions, plantation methods and care etc.

Sponsors and participants:

These will depend on the result of survey of usability and economics of present installations, since the first priority should be to try to combine the introduction of new products with the rehabilitation of currently unused production facilities, provided they are not too antiquated or dilapidated.

Target dates:

(a) For finishing technical survey: by 31 January 1977;

(b) For completing agricultural survey: 31 July 1977;

(c) For completing project studies for coir fibre and shredded coconuts: 30 September 1977;

(d) For market and feasibility study for margarine and shortening (Unilever assistance): 30 June 1977;

(e) For coir fibre technology and know-how; literature and studies on file at United Nations, UNIDO, FAO etc. to be in CIC's hands for review: by 30 April 1977.

Fish fileting and processing (10)

It is to be noted that the modest processing project here proposed should not be confused with the joint venture fishery projects under study by CDB. The project discussed here would be a pilot plant for processing small quantities of local catch for use in hotels and restaurants.

Information on hand:

There is no reliable data available regarding catch volumes and species caught. Hotel and restaurant demand for St. Lucia obtainable from Hotel Association, which views project favourably.

Work required:

(a) The Hotel Association of St. Lucia promised co-operation on fish demand data. Similar information should be obtained on other islands with a heavy volume of tourism;

(b) A pilot survey should be made on St. Lucia, by fishing village, of species caught, fishing practices used, fishing volumes, present sales methods, prices and potential for catch increases if regular processing take-off is guaranteed during main tourist season;

(c) Since this project requires only a minimum of capital outlay (clean shed, large tables, two delivery trucks; ice can be trucked in every day initially), a pilot operation could be ready for start-up at the beginning of the 1977/78 tourist season;

(d) Technical advice required on the actual fileting and processing operations (technician from Germany or Italy where such operations are still performed manually). No great expert required, but experienced foreman would do for the small size of operation envisaged here. Smoking and de-boning as well as fileting to be foreseen in the project.

Execution and assistance:

(a) Survey of demand, prices obtainable, costing, economics and capital costs to be made by CIC;

(b) Fishing survey of St. Lucia to be done by CIC;

(c) Technical advice on operations: UNDP or direct contact with operators in other countries.

Sponsors and participants: to be defined by CIC after completion of project profile.

Target dates:

(a) Project profile to be ready by 31 May 1977;

(b) Location to be decided by 30 June 1977;

(c) Project operative in pilot stage by 1 November 1977;

(d) Implementation of projects on other islands if pilot project successful, during 1978.

Fruit and vegetable canning (11)

Of all the projects proposed, the canning of fruit, fruit juices and vegetables is the most difficult, controversial and complex undertaking.

The EIU survey contains a special volume on fruit and vegetable canning as part of their industrial survey, with negative conclusions. At the time of the survey in 1972, the upsurge in tourism was not yet foreseen, and the EIU analysis was based on the lowest world market competitive prices in the European and United Kingdom export market. Obviously, all of the basic data on project feasibility have to be updated (growing areas, crop volumes, processing costs, canning and packaging costs etc.), but the format and structure of the EIU analysis can still be used.

One further complication is the necessity of defining the scope and method of intervention by the local marketing boards in planning, subsidizing, purchasing, warehousing and distributing locally grown fruit and vegetables, as well as in defining the volumes of imports permitted to tourist hotels. Since steady and dependable supply, at uniform acceptable quality, is a prerequisite for both the tourist hotel trade and for the canning and processing plants, the establishment of private canning and processing ventures will require a very close planning and operational co-operation with local Governments and farming groups.

A series of infrastructure support programmes by local Governments and regional institutions will be required to provide long-term continuity and stability to island agriculture, such as:

- (a) Strengthening and "professionalizing" local marketing boards;
- (b) Establishing rural credit plans, combined with extension services for technical advice and loan control;
- (c) Introducing crop insurance schemes.

Information on hand:

- (a) The St. Lucia Hotel Association promised statistical data on hotel demand for fruit and vegetables by 10 December 1976 (CIC follow-up);
- (b) Marketing boards and local Governments should have some statistical information available, even if perhaps fragmented and poorly organized.

Work required:

- (a) To obtain demand data on tourism for major tourist islands;
- (b) To assemble and analyse local statistical information on crop plans, government support programmes, marketing channels and probable costs;
- (c) To estimate fresh fruit and vegetable sales via public markets and supermarkets and retailing organisations;
- (d) To estimate probable volumes available for canning and processing, determining seasonal patterns;
- (e) To determine availability and cost of versatile plant and equipment for low to medium volume output of variable raw materials;
- (f) To estimate potential for increasing supply from additional growing by both present and new agricultural producers;
- (g) To determine which island could be the location for first experimental project;
- (h) To make preliminary export competitiveness survey, taking into account present price quotations from competitive sources into the United Kingdom and Europe.

Execution and assistance:

- (a) CIC to do tourism/hotel demand projections of the data of the Hotel Association;

- (b) CIC to undertake statistical survey on supply factors;
- (c) CIC to estimate fresh fruit and vegetable sales and volume potentially available for canning and processing;
- (d) CIC to make locational study;
- (e) CIC to undertake export competitiveness analysis with assistance of the Representative's Office of the United Kingdom;
- (f) Suitable expert to be located by UNDP, with practical experience in low volume, versatile canning operations, to give technical advice on plant type, equipment selection, processes to be used etc.

Sponsors and participants: to be determined after completion of project profile.

Target dates:

- (a) Tourism/hotel requirements: 15 December 1976;
- (b) Compilation and evaluation of local statistical data, initially for St. Lucia: 28 February 1977;
- (c) Estimate of local fresh sales: 28 February 1977;
- (d) Potential future supply available for canning: 30 April 1977;
- (e) Technical study: initiate after compiling above data, in order to have volume estimates available (i.e. 30 April 1977); terminate technical work by 31 July 1977;
- (f) Project profile: 30 August 1977, for review and approval by 31 October 1977;
- (g) Start-up: second half of 1978 on one or two islands;
- (h) Fruit-juice processing, canning and freezing can possibly be gotten under way sooner.

Cocoa processing, Grenada (12)

Information on hand:

- (a) Equipment cost estimates for three technical stages of project (planning 2000);
- (b) Actual export prices for cocoa beans versus prices for processed products.

Work required:

- (a) To explore interest of the Government of Grenada in supporting the project;
- (b) To explore possible participation by Cocoa Growers' Association;
- (c) If above soundings positive, to analyse local processing costs and conduct a detailed feasibility study.

Execution and assistance:

- (a) CIC Chief Executive to explore first two points above;
- (b) Assistance in conducting feasibility study required from knowledgeable European cocoa expert from one of the few leading firms in the Federal Republic of Germany, the Netherlands or the United Kingdom (de Zaan, van Houten, Hamacher, Schokinag, Rowntree) to determine exact project economies as a function of different processing stages done locally, taking into account European quotations for processed versus raw cocoa.

Sponsors and participants: Grenada Cocoa Growers' Association, CIC, possibly a foreign know-how or trading partner and possibly also the Government of Grenada.

Target dates:

- (a) Exploration: 31 December 1976;
- (b) Finding cocoa expert to assist in study: 15 February 1977;
- (c) Initiation of study: 15 May 1977;
- (d) Project outline and proposal: 31 August 1977;
- (e) Initiation of construction: depending on equipment delivery times;
- (f) Start-up: during 1978.

Spices processing (13)

First stage of examination should be desk research, with UNDP assistance, on minimum volumes required for local spice processing to check whether local units economically feasible. Then, investment cost estimates and comparative cost analysis of processed versus raw spices can be conducted.

Target dates:

- (a) Desk research: 31 March 1977;
- (b) Contact expert for comparative preliminary evaluation (by mail): 30 June 1977.

Honey (14)

Mexican expert from Niel Carlota (largest private honey producers in the world with 21,000 beehives) were to come to the region about February/March 1977 to survey basic feasibility and recommend location for pilot project. Project outline and all further work was to depend on the result of this visit.

Cashew nuts growing and processing (15)

First stage: desk research with assistance from UNDP and FAO on cultivation practices and processing facilities in other countries, followed by local analysis of cultivation potential and projected crop volume by CIC. An export competitiveness analysis would then be made on the basis of quotations in Europe and the United States (by mail).

Target dates:

- (a) Desk research: 28 February 1977;
- (b) Export competitiveness: by 31 July 1977.

Arrowroot production and processing (16)

Information on hand: successful experience of St. Vincent in exporting to computer paper manufacturers in the United Kingdom and the United States.

Work required:

- (a) To conduct in-depth conversations with present users to determine future market potential, to examine competitive situation of arrowroot versus other substitutable raw materials, and to solicit suggestions as to quality, processing and packing;
- (b) To determine which areas and types of soil feasible for growing;
- (c) To make search for simple mechanized implements for aid in harvesting;
- (d) To analyse economics of present small-scale individual farming operations versus medium-sized efficiently run operation;
- (e) To prepare full feasibility study and determine location and participation structure for initial demonstration project.

Execution and assistance: CIC with assistance of the Government of St. Vincent.

Target dates:

- (a) User survey: 30 June 1977;
- (b) Feasibility study: 31 August 1977.

Fertiliser mixing plant (17)

Information on hand:

- (a) Negative EIU recommendation of 1972;
- (b) CDB feasibility study of 1976.

Work required:

- (a) Careful review of cost and price data in CDB study together with WINBAN;
- (b) If local cost comparable, contact WINBAN to determine the willingness to buy local product (this is the economic basis. If the banana growers do not buy, the project does not have sufficient sales volume. Also, the banana industry must be supplied at acceptable cost; otherwise the already precarious cost situation of Windward Island bananas in comparison to Central American and Equadorean supplies would be negatively affected);

- (c) To review plant output and process, as well as investment costs;
- (d) To prepare full feasibility study in co-operation with CDB.

Execution and assistance: joint CDB-CIC study, with assistance from OFTC expert presently at CIC who has extensive operating experience in fertilizer-mixing operations.

Sponsors and participants: to be determined.

Target dates: presentation of full feasibility study by 31 March 1977.

Timber (18)

Information on hand:

- (a) Data on currently operating or shut-down plants should be available to CIC;
- (b) Reliable logging and processing costs not available;
- (c) Reliable market estimates not available.

Work required:

- (a) To determine why existing projects have either failed or why they have not been able to reach projected results;
- (b) To analyse what has to be done to correct situation, improve competitiveness and rehabilitate producers;
- (c) Market survey.

Execution and assistance: work to be done by CIC with assistance of specialized consultants.

Sponsors and participants: the approach should be to expand, modernise and build upon, or to rehabilitate, one of the existing timber companies.

Target dates:

- (a) CIC analysis of existing companies and of potential future markets: 30 April 1977;
- (b) Feasibility report on rehabilitation of one of existing companies: 30 June 1977.

Sea Transport (19)

This is probably one of the most interesting and potentially beneficial projects on the priorities list, requiring an inordinate amount of analytical work, creative imagination and technical and organisational expertise.

What is required for the Eastern Caribbean is a well-organized sea transport company using sailing schooners with auxiliary engines for containerized transport at lowest possible cost.

Work required:

- (a) To obtain full documentation from CDB and CARICOM on shipping development and design work done in the region, and on transport volume studies;
- (b) To request UNDP assistance in assembling all available information on similar types of transport systems used or planned in other parts of the world (Asia?, South Seas?);
- (c) To review UNCTAD study on this subject;
- (d) To contact groups such as the Intermediate Technology Group of London to ask for assistance in locating design know-how for this type of vessel;
- (e) To determine locally, in rough outline form, the type and volume of cargo available in inter-island transport;
- (f) To obtain expert assistance in the final preparation of a full technical and feasibility study on the project;
- (g) To utilize the boat-building know-how in the Grenadines for production of the vessels.

Execution and assistance:

- (a) Research assistance and documentation via CDB, CARICOM and UNDP, with local statistical work on cargo types and volumes by CIC;
- (b) Assistance by transport economist to prepare analysis and projections on freight types and volumes, and costs.

Sponsors and participants: to be determined after full report available.

Target dates:

- (a) CDB, CARICOM and UNDP references and information: 28 February 1977;
- (b) Locate expert for transport economics study: 31 July 1977;
- (c) Pre-feasibility report: 31 October 1977;
- (d) Implementation: during 1978/79.

Tourism supplies (20) to (22)

Any of these projects can be put underway immediately without in-depth studies if the small entrepreneurs are found to promote them. All of the hotel managers contacted were unanimous in confirming good sales possibilities to tourists. Here, CIC's role will be to locate and assist local entrepreneurs. Know-how can be made available through contacts with similar small Mexican projects.

Organisation and support for project implementation

Outline of problems

There is complete agreement among the political authorities in the Caribbean on an enlarged and more active role of CIC in project development and implementation. The second Heads of Governments Conference in December of 1975 called for "special attention to be given to strengthening and expanding the operations of the Caribbean Investment Corporation". Similarly, the 9th Meeting of the CARICOM Council of Ministers of September 1976 adopted a resolution to enlarge the role of CIC in order to allow it to become an implementation agency for projects in the LDC area.

Such strengthening of CIC's functions, which was also advocated strongly and put forth and substantiated in detail by the consultant in May 1976 (see chapter I of this report) will, however, create problems of organization, staffing, co-ordination and funding which have to be faced and resolved in time.

The following comments give an idea of these problems and include recommendations for their solution.

CIC - internal organisation

Functions requiring strengthening. As already mentioned in chapter I, the internal functions of CIC will have to be strengthened in the following areas:

- (a) Programme and project development including:
 - (i) Preparing, updating regularly and reviewing development programme priorities for CIC;
 - (ii) Determining project priorities and time-tables for implementation;
 - (iii) Executing pre-feasibility studies, preparing project profiles and making market and supply surveys (see also item (b));
 - (iv) Searching for partner and promotional activities for new projects;
 - (v) Company structuring and preparation of financing for projects;
 - (vi) Possibly carrying out negotiations with foreign know-how partners;
 - (vii) Supervising and co-ordinating technical, market and feasibility studies carried out by outside consultants;
 - (viii) Maintaining close liaison with other regional institutions and with international agencies for:
 - a. Project information and research studies available on similar projects in other countries;
 - b. Co-ordinated action in the case of projects with region-wide applicability or with multiplication potential on several islands;
 - c. Joint market studies and marketing campaign for export articles;

- d. Tie-in with infrastructure programmes being promoted by CDB or other regional or international agencies;
- e. Regional promotion campaigns for foreign investment;
- f. Avoiding duplication of efforts, while stimulating free and active interchange of information;
- (ix) Building up statistical and technical information; such as:
 - a. Economic data in region on GNP, employment, production, imports and exports, transport, input costs etc.;
 - b. Basic technological and operating information from international sources on the major agricultural and industrial activities, either existing or planned, in the region;
- (x) Introducing fiscal incentives and support programmes by national development corporations (industrial estates, port facilities etc.);
- (b) Feasibility studies: (both for project development and for studies of projects proposed to CIC by others);
 - (i) Developing routine techniques for such studies and compiling general background statistics;
 - (ii) Establishing close contacts with international agencies and with industrialized country development agencies for consulting assistance and know-how transfer;
 - (iii) Building up contacts with development institutions and financing and investment organizations in Mexico, Central America and South America to profit from their experience and connections;
- (c) Normal investment appraisal: the increase in number and volume of new proposals made to CIC will make it necessary to increase its processing capacity for such proposals;
- (d) Implementation assistance: experience during the first two years of CIC's operation has shown that the following difficulties are being encountered:
 - (i) Lack of programming skills by local entrepreneurs;
 - (ii) Management weakness in marketing, production control, internal administration and financial controls;

Thus, CIC must provide assistance to its projects in the implementation in the form of:

- (i) Technical advice in machinery selection, plant layout, process control;
- (ii) Preparation and control of project execution schedules;
- (iii) Critical path controls in larger projects;
- (iv) Preparation and control of project budget;
- (v) Running-in supervision;

(e) Investment management and project monitoring:

Once the projects are in operation, the following activities - at present organized only on a reduced scale in CIC - will have to be considerably strengthened with these objectives in mind:

- (i) To help each project achieve its goals for operation, output and returns;
- (ii) To detect possible deviations or trouble spots at the earliest possible moment in order to take corrective action;
- (iii) If necessary, to organize crisis management intervention if projects get into serious difficulties.

This implies additional support for the following functions:

- (i) Ongoing financial control of investments (monthly operating results, cashflow, audited annual statements);
- (ii) Project monitoring of critical factors (see chapter II of this report);
- (iii) Regular review meetings with company managements on progress and problems;
- (iv) Access to consulting assistance for crisis management situations.

How to provide for the strengthening of the above-mentioned functions.
The "normal" procedures under "normal" circumstances would be for an organization to build up the skills and talents required for growth and expansion in a gradual fashion, to train its people thoroughly and only to initiate an expansion once the management infrastructure is fully prepared. CIC cannot afford to follow this conservative practice for these reasons:

- (a) The creation of employment in the LDC area of the Caribbean is an immediate problem requiring urgent development efforts;
- (b) Development opportunities in the ECCM area must be activated by implementing successful pilot projects in a maximum number of fields in order to stimulate repetition and, thereby, a multiplication of efforts.

Thus, CIC will have to find ways to provide for the enlargement of its development role and for the strengthening of its functions within a very short time, and within the financial stress imposed by having to fund development and promotion functions which will not show an immediate positive result in its own financial statements.

Within CIC, it is estimated that the following staffing schedule would have to be met in order that it do its job with the required urgency and thoroughness:

Personnel required (in brackets, personnel already engaged):

1. Programme and project development

Manager of department (new)

Two professionals (new)
Librarian (new)

2. Investment appraisal

Head of section (existing)
Senior professional (existing)
Two junior professionals (new)

3. Investment management and project monitoring

Head of section (vacant)
Senior professional (existing)
Two junior professionals (new)

4. Technical support

(Experts to be active in project development, implementation assistance, special feasibility studies and management assistance to existing investments.)

Senior co-ordinating professional (existing)
One counterpart professional (new)
Two advisers on secondment (new)

Internal flexibility and mobility should be provided in the following areas in order to avoid over-staffing:

(a) The junior analysts in project development and in investment appraisal should be interchangeable and assigned according to work-load in these two areas;

(b) The technical support function should be organized as a talent pool from which to draw for programme development, investment appraisal, project implementation and operational assistance to existing investments.

The internal organization structure of CIC would, therefore, be as follows:

Board of Governors

Board of Directors

General Manager
Manager of Finance and Administration
Manager of Planning and Development
Manager of Operations (later)

Head of Investment Appraisal
Head of Investment Management and Project Monitoring
Head of Technical Support

Evidently, the staffing scheme outlined above can be achieved only with temporary secondments of experienced advisers who would train their local counterparts and junior staff.

Likewise, funding for employment of local counterparts should be sought with international development agencies.

Specifically, it is recommended that the following senior positions be staffed with advisers:

Manager of Planning and Development (foreign, temporary), with two local counterparts

Head of Investment Appraisal (foreign, temporary) with one local counterpart and two local junior professionals

Head of Investment Management and Project Monitoring (foreign, temporary), with one local senior professional counterpart and two local junior professionals

Technical Support Co-ordinator (foreign, temporary) with one local counterpart and two foreign temporary advisers on rotating basis according to projects.

Aside from its UNIDO assistance programme, CIC has been in contact with the Commonwealth Fund for Technical Co-operation (CFTC) and with the Canadian International Development Agency (CIDA), both of whom have expressed willingness to support CIC in secondment of advisers and funding of local counterpart staff. It will be up to CIC's management to pursue such negotiations.

It is most important to note, however, that the funding of up to 12 experts and local counterparts for CIC, by different agencies, is to be viewed as a temporary measure, limited in time to, say, two years and designed to provide "take-off assistance" to CIC in organizing and staffing its project development, implementation and control functions. Once under way, and once turned over to local counterparts, these functions will have to be supported by CIC, which means that they must have become fully "productive" after about two years.

Thus, funding of the support staff mentioned earlier is to be considered as a catalyst type of aid from development aid sources, designed to make CIC self-supporting and self-reliant.

The only exception would be the highly technical consulting assistance which might be required in the evaluation of specific new projects or new programmes. Such assistance would be required continuously, but increasingly on a case-to-case basis.

The consultant strongly recommends that the UNDP and UNIDO support CIC's requests for assistance to the fullest extent possible and with the widest operational flexibility feasible (more on this latter item in the subsequent section of this report).

The relations of CIC with other regional development and planning institutions

General framework

Aside from the decision-making political bodies of the CARICOM area, the following institutions participate, in one way or another, in the economic development and project evaluation process:

CARICOM secretariat (example: work on the Regional Food Plan)
ECCM secretariat (example: allocation of industries among LDCs)
CDB (example: work on fisheries joint ventures)
National development finance corporations (mainly factory sites, leasing of space, small loans)
CIC (Project development and implementation of investments and loans)

It would not be appropriate to examine here the respective charters, agreements and operating objectives of each institution and to compare them to what in fact each institution is now doing in practice and what each one would ideally like to do. There exists, however, a wide consensus in the region on the principal functions of each institution which may be summarized as follows:

- (a) CARICOM secretariat: region-wide planning for economic development;
- (b) ECCM secretariat: subregional planning for economic development;
- (c) National DFCs: assistance and finance in the implementation of local projects;
- (d) CDB: Regional Development Bank with:
 - (i) Financing and planning of infrastructure projects;
 - (ii) Financing and planning of regional joint ventures;
 - (iii) Supervision of projects financed by CDB;
 - (iv) Relending of funds to regional and local institutions;
 - (v) Economic research;
- (e) CIC: investment corporation with:
 - (i) Participation and finance for individual projects;
 - (ii) Implementation of project development programmes leading to establishment of new ventures in industry, agriculture, commerce, transport and services.

Within this group of institutions, therefore, CIC's role is unique, that is:

- (a) It is to be an "implementation agency" for the creation of production, employment and wealth in the LDCs;
- (b) It is to be a capital participant and sponsor of individual projects;
- (c) It is the most "project-oriented" or "business-oriented" of the institutions because it has to deal with projects which have to show a return on investment acceptable to investors.

Relations with the Caribbean Development Bank (CDB). CIC will do well to maintain an intimate liaison with CDB whose programme-lending activities and infrastructure projects provide the macro-inputs and basis for some of the individual projects in LDC countries, and whose technical expertise in many

fields may save work and expenses by CIC in developing project feasibility data. Also, close contact with the MDC areas may give valuable pointers and information in this respect. Thus, a more active interchange of project information between CDB and CIC should be organized.

On the other hand, CDB's initial proposal for the loan contract governing project financing passed on to CIC via CDB out of international (principally Canadian) aid and grant funds is not proper for an agreement between a regional development bank and a regional investment company.

The type and extent of restrictions and limitations proposed would seriously hamper CIC's operational flexibility and would impose upon CIC a degree of control by CDB which is not at all usual in loan contracts of this type (see the flexibility enjoyed by CIC-type borrowers of the Inter-American Development Bank, for example Adela Investment Company).

The guiding principle in this type of relationship must be to preserve for CIC the entrepreneurial initiative and operational flexibility it needs to achieve its development objectives effectively, while assuring CDB, as the lending institution, of the controls it may reasonably require over the use and disposition of its funds. The consultant has reviewed the contract draft with CIC during his visit, making a series of detailed recommendations for modifications.

ECCM secretariat. In order to clarify concepts and orientation for co-operation between the ECCM secretariat and CIC, both of these institutions being concerned with economic development in the ECCM area, conversations were held with the Executive Secretary of ECCM. Fortunately, ECCM's orientation and priorities in comparison to CIC's tasks allow a clear distinction in their respective missions permitting a co-operative, non-conflicting assignment of supporting and assistance functions provided to these two organizations by the United Nations and by other international aid programmes. This will be set out in detail in the next chapter of this report. Here, first, is a summary of ECCM secretariat/CIC functions.

The ECCM secretariat views its primary economic development objectives as those of a regional planning agency, with the following broad areas of orientation:

(a) To assist local Governments in organizing and carrying out administrative functions necessary for planning, budgeting and fiscal administration on a local level;

(b) To assist local Governments in introducing comprehensive planning systems and methodology, allowing a tie-in both with local budgeting and with regional planning;

(c) To build up in-house capability within the secretariat for regional planning, involving:

- (i) The design of territorial and regional development strategies;
- (ii) Co-ordination of regional infrastructure activities;
- (iii) Co-ordination of regional marketing and promotion campaign for agricultural exports, tourism etc.;
- (iv) Identification of regional linkages for promotion of projects;

(d) To pursue activities involving the granting of Article 56 regarding preference treatment and allocation of regional industries.

Within this general orientation, the ECCM secretariat is tackling the following priorities:

(a) Gathering and standardizing statistical information, necessary as a basic development tool;

(b) Assisting in fiscal reform and fiscal planning for member Governments;

(c) Developing economic planning activities in the territories and designing regional development strategies.

For individual project identification, feasibility studies, project promotion, and advice to local entrepreneurs, the ECCM secretariat would leave the implementation largely in CIC's hands, with the secretariat being brought in for the design of regional strategies, for pointing out linkage effects and for project identification within the framework of regional development strategies.

This delineation of functions, which is completely in accordance with CIC's views and with the political decisions taken by the heads of Governments and Council of Ministers, permits clear recommendations regarding a more effective structuring and orientation of UNDP assistance to the ECCM region.

V. IMPROVING THE EFFECTIVENESS OF UNDP ECONOMIC ASSISTANCE
IN THE CARIBBEAN REGION

Background

The latest UNDP directory of personnel in Guyana and the ECCM islands (Antigua, Dominica, Grenada, Montserrat, St. Vincent, St. Lucia and St. Kitts-Nevis-Anguilla) shows 103 United Nations staff members resident in the area, of whom 68 are professionals and advisers, the others being administrators and support personnel. Of the 68 professionals, 39 work on assignments which can be grouped under "economic development activities". The other professionals are shown under public health programmes and projects in government services, topography etc.

Of the 39 professionals in the field of economic development 9 work in Guyana, leaving a group of 30 people on the islands. Of these 30, 7 work in agriculture and agricultural marketing services, 10 are shown as physical planners, 2 are port administrators, 1 is a social security specialist, 4 are specialists in statistics and national accounts, and 5 are industrial promotion advisers, project analysts and industrial consultants.

The professionals listed under economic development tasks in the ECCM area are working under 17 different project numbers, and they are assigned to a total of 15 different local or regional counterpart agencies, government departments, ministries or financial institutions. Evidently, this fragmented structure of assistance programmes poses difficult problems of co-ordination, guidance, back-up and information. Evidently, also, there is little scope for a fundamental streamlining of assistance organization owing to the variety of sponsoring agencies on the one side, and assistance requesting organizations, on the other.

Thus, suggestions for improving the effectiveness of assistance in economic development must take cognizance of these limitations. Still, as will be seen below, there seems to be a considerable potential for:

- (a) Clearer orientation of assistance tasks to conform to development priorities in the region;
- (b) Less fragmentation of efforts;
- (c) Better assignment of assistance projects to local agencies, involving certain regroupings of advisory personnel;
- (d) Better overall utilization of the UNDP talent pool of human resources in the region;
- (e) More effective information and communications.

Possibilities for improvement

Clearer orientation towards development priorities

The priority needs of the ECCM secretariat are to receive assistance in:

- (a) Systems and methods of planning in order to assist local Governments in building up planning activities;

(b) Design of regional development strategies including study of allocated regional industries;

(c) Fiscal administration and planning for local Governments and on an ECCM level;

(d) Project profiles for regional "allocated industries".

Actual UNDP assistance includes economic statistics as the basic planning tool and a large physical planning group (in which, however, it should be noted that regional authorities complain about the lack of contact and feedback between the physical planning unit and the regional political and economic authorities).

Actual assistance, however, does not provide know-how in fiscal matters and in planning systems and methods, the priority needs of the ECCM secretariat. Instead, an industrial promotion team has been assigned to the secretariat. The actual UNIDO programme for industrial promotion attached to the ECCM secretariat suffers from these defects:

(a) In seven months of work, the two-man team has not produced one single implementable project and it has not prepared one single project profile for promoting any of the 35 allocated regional projects;

(b) Its actual work has been spent on investigations of no significance or impact;

(c) There is no plan of priorities or for the execution of work within a programme discussed with, and approved by, the ECCM secretariat;

(d) There is a total breakdown in communications between the local agency and the UNIDO team.

As will be explained, this state of affairs may not be as much a reflection on the personal and professional capabilities of the UNIDO personnel involved, as of the wrong "placement" of this project.

Recommendations

1. For each UNDP project, there should be not only internal terms of reference and objectives of the programme or project, but also a project priorities programme established one month after the United Nations team or the individual adviser arrives on station. This programme should be worked out jointly, and should be signed jointly, by the head of the local or regional counterpart agency and by the United Nations team leader, project manager or adviser in charge of the project.

Only in this way can practical, concrete and agreed-upon priorities be set which can later form an objective basis for appraising the results of work and the performance of the advisers, and can it be assured that the counterpart agencies shall be actively involved in goal setting and progress control. A side effect would be to minimize the misuse of human resources for project work unrelated to the agreed-upon priorities programme ("pet projects").

2. There should be a twice-yearly project performance review by the office of the UNDP resident representative in the region which should cover,

on the basis of the terms of reference of the project and of the project priorities programme:

- (a) An interview with the head of the counterpart agency on work and performance of the assistance team or adviser;
- (b) An interview with the team or the adviser;
- (c) An evaluation of work done;
- (d) A final appraisal report to UNDP and to the United Nations sponsoring agency with copy to the project manager, team leader or adviser concerned.

3. In the case of either inadequate work or inappropriate focus of efforts, immediate corrective action should be taken, instead of waiting until the date of contract extension or renewal. Through these reviews, the regional office would be fully informed not only about the progress reports regularly forwarded from the field to the different home offices of the United Nations agencies involved, but also - and more importantly perhaps - about the effectiveness of work as perceived by the counterpart agencies in the region.

Less fragmentation

Industrial promotion efforts are currently being carried out in the ECCM region (aside from the activities of the World Bank team at the Caribbean Development Bank) by five advisers, two stationed with the ECCM secretariat in Antigua, one on St. Kitts, a tanning expert on Montserrat and one project evaluation specialist at CIC in St. Lucia. If the Antigua team expansion plans should go through unchanged, additional project experts would be assigned on four islands under the Antigua Programme (UNIDO, DP/CAR/73/001).

Better assignment of projects to counterpart agencies

Unfortunately, the original design and "placement" of a UNDP assistance project with a counterpart agency is sometimes superseded by changes in the functions of the counterpart agency or by the emerging of new institutions which take over functions originally envisaged for the counterpart agency. If one adds to this the at times very substantial delay in locating, contracting and getting on scene of advisers and team leaders, a project may reach its planned scope exactly when the counterpart agency's functions and priorities have changed.

Illustration:

The UNIDO project (DP/CAR/73/001) was designed, laid out and organized at a time when the ECCM area still had no implementation agency for industrial projects. Thus, this project was assigned to the ECCM secretariat as the only regional ECCM economic institution then organized and active.

However, the ECCM secretariat's functions and priorities have changed in the three years since the assistance programme was conceived. At the same time, a new implementation agency for industrial project promotion and financing has been established: the CIC. It is to this entity that industrial

promotion and assistance functions should be attached, in line with CIC's development priorities. The assistance programmes for the ECCM secretariat should be strengthened in its areas of priority (see chapter IV, section on the ECCM secretariat). This holds true all the more in view of the fact that CIC, and not the ECCM secretariat, is the financing and investment agency equipped to implement individual projects.

Recommendations

1. As a general rule, each project of UNDP assistance in the Caribbean should be reviewed once a year regarding its attachment to particular counterpart agencies, the opinions and advice of the regional development entities sought on this matter (CARICOM secretariat, ECCM secretariat, CDB, CIC). One of the principal criteria to be used in such evaluation should be the statutory authority and professional and practical capability of the counterpart agency to continue development efforts on a self-sustained basis once UNDP assistance is terminated.

2. With specific regard to economic assistance programmes by UNDP, it is recommended:

(a) That UNIDO project DP/CAR/73/001 ("Industrial project evaluation and promotion") be discontinued and that its human and financial resources be assigned to UNIDO project DP/CAR/74/006, to the extent feasible;

(b) That UNIDO project DP/CAR/74/006 ("Assistance to the Caribbean Investment Corporation") be restructured to provide for the secondment to CIC of additional professionals and for the funding of local counterparts;

(c) That, to the extent professionals have already been contracted for the project (DP/CAR/73/001), they should be assigned to the CIC programme where they would be fitted into the organisational scheme described in chapter IV in accordance with talents and experience;

(d) That a project manager be appointed for this CIC team, with preference for this post being given the present team leader at CIC who has established very good working relations with his counterpart agency and who knows the orientation of future CIC work;

(e) That UNDP assistance be provided to the ECCM secretariat in the following specific areas:

(i) Fiscal administration, fiscal planning, budgeting;

(ii) Systems and methodology of economic planning for local Governments and for the ECCM secretariat;

(f) That the adviser working on an assistance programme for small-scale industries in St. Kitts (UNIDO project STK/75/002) be put under functional supervision by the Project Manager of (DP/CAR/74/006).

Better utilization of UNDP talent

The 30 economic, technical and agricultural advisers of UNDP at present assigned to the ECCM islands, and the probably even larger number of personnel

stationed in the more developed countries of the Caribbean and in Guyana, constitute a formidable pool of talent. An optimal utilization of this reservoir of skills and know-how becomes increasingly necessary as, on the one hand, United Nations financial resources are tight and, on the other hand, economic development urgencies in the ECOC area become more acute each year.

At this time, however, the UNDP personnel is not generally looked upon as a talent pool for the area, but rather as an agglomeration of individual specialists, working on specific projects.

As will be discussed below, lack of information and communications contribute a lot to this isolation of individual advisers and teams.

The objective must be to view and organize the entire network of UNDP talent in such a fashion as to bring to bear, systematically, on any individual development strategy, project programme or any individual project, the collective experience of all UNDP advisers with past experience, technical skills, education and specialized knowledge on the project programme under review, regardless of which project the experts are assigned to and without distracting them from their principal daily work. Into this talent pool should be incorporated all experts active in the Caribbean under programmes sponsored by other development agencies (CFTC, CIDA etc.).

Illustration:

The CDB prepared a pre-feasibility study on a regional cement bagging plant. An expert seconded to CIC under contract to CFTC happens to have long years of experience in the industry and can give valuable pointers.

CIC is promoting several agro-industry projects. If CIC knew about present activities and past experience of the FAO and UNCTAD experts in the region, much time would be saved, in the search for experience and advice, and possible errors in project implementation would be avoided.

There is a "transport adviser" listed in the UNDP staff list. Would he perhaps be the man to consult on small-scale shipping?

Such consultations would normally not require more than a mailing of all project information for review and, if a project moves towards actual implementation, perhaps one or two visits for discussion.

Recommendations

1. The UNDP regional office team leaders and project managers should mail, twice a year, to all UNDP professionals, to all general and project evaluation and project supervision officers of each regional and local development finance organization, and to the officers of regional agencies and local Governments, a UNDP regional talent inventory listing in detail, for each professional resident in the Caribbean, these data:

- (a) Name, age, residence, office and telephone number;
- (b) Project to which assigned;
- (c) Counterpart agency;

- (d) Description of specific work being done under the present UNDP assignment, with listing of projects under execution or review;
- (e) Listing of projects or programmes with which the professional has become involved in his present assignment;
- (f) Job history of professional;
- (g) Listing of specific types of projects or industries in which professional has experience;
- (h) Special types of technical, economic or financial knowledge possessed by the expert.

The first mailing of this talent inventory should be preceded by a presentation (written or by visit) to recipient agencies in the region by a representative of the UNDP office in Georgetown who would point out the benefits of utilizing this inventory.

2. All UNDP experts stationed in the area should receive a personally addressed letter by a high United Nations official pointing out the objectives of the inventory and inviting them to co-operate both in providing the required data and in giving advice when receiving requests for assistance from sources outside their immediate project assignments.

3. Maximum operational flexibility should be allowed by UNDP in such "horizontal" consultations either between professionals or regional or local agencies and professionals not directly assigned to them. The initiative for consultations should be allowed and encouraged at all levels without necessarily involving prior approval and review by the UNDP regional office.

Improving information flow and communications

Utilisation of talent, as described above, and avoidance of duplication of work require much better information in the field and about local and regional counterpart agencies on projects under review, pre-feasibility and feasibility studies under preparation, project ideas in the design stage, consultancy and assistance projects on the books and under preparation, and approval of project loans and investment. This information must be available for and from all institutions active in the region, on a timely and current basis.

At the present time, it is not exaggerated to say that there is a total absence of "horizontal" information and communications in the field.

Illustration:

At this time, the following fisheries projects are known to be under study:

- CDE, joint venture ocean fishing projects
- CIDA, St. Lucia project with local Government
- CIC, local fish-processing for tourism and hotels

Probably, there are two or three additional initiatives not listed here.

On beef cattle, there must be at least a dozen project studies and proposals, ranging from the CARICOM secretariat initiatives under the Regional Food Plan to consulting studies prepared for CDB.

A pooling and interchange of information are vital to ensure:

(a) That all promoting institutions shall have access to background and project feasibility information for review and elimination of errors;

(b) That project promotion efforts shall be co-ordinated in such cases where more than one project may not be economical for individual or regional markets;

(c) That pre-feasibility studies possibly undertaken and then shelved for lack of implementation may be used when conditions have changed or when a group of entrepreneurs wants to take up the project again;

(d) That analytical work shall not be duplicated.

Recommendations

1. In order to provide a reliable instrument of information, it is recommended that the UNDP regional office issue a monthly Caribbean project inventory organized under the following headings:

Investment and loan approvals officially granted
Projects submitted for investment or loan approval
Projects under active analysis
Project ideas under preliminary review;

and containing, for each project, the following data:

Brief project description
Sponsoring, promoting or reporting agency or institution
Total investment, broken down into equity and loans
Physical size of projects (projected output or throughput)
Location of project
Name of officer in reporting agency who may be contacted for further information

To be effective, all agencies or institutions active in development finance, development planning and economic and technical assistance in the Caribbean should participate in this endeavour by establishing simple routine monthly information mailings to the UNDP regional office.

Among others, the following institutions should furnish information:

CARICOM secretariat

ECCM secretariat

UNDP with all contributing agencies

CDB

CIC

National development finance companies in all Caribbean countries

CDC

CFTC

CIDA

Assistance organizations and special programmes of European Governments

This list should be mailed to all contributing institutions, to all UNDP project managers and team leaders and to local Governments in the area, and it should be freely available on request to any public or private enquirer.

The project inventory should be started immediately with data from UNDP, CDB, CIC, CIDA and other organizations which are able to give prompt co-operation. Then, in a second stage, the inventory can be expanded to include data from local Governments (both in the MDCs and in the LDC area) and from foreign aid agencies active in the region. The desirability of making the inventory all-inclusive should not hold up its initial issuance with information from those agencies who can and want to co-operate.

2. The UNDP regional office should take the initiative in providing "horizontal information" between the different UNDP projects under execution in the Caribbean by circulating extracts from progress reports so that all United Nations experts in the region are informed about the work of their colleagues, thus encouraging inquiries, suggestions and consultations.

Internal project administration

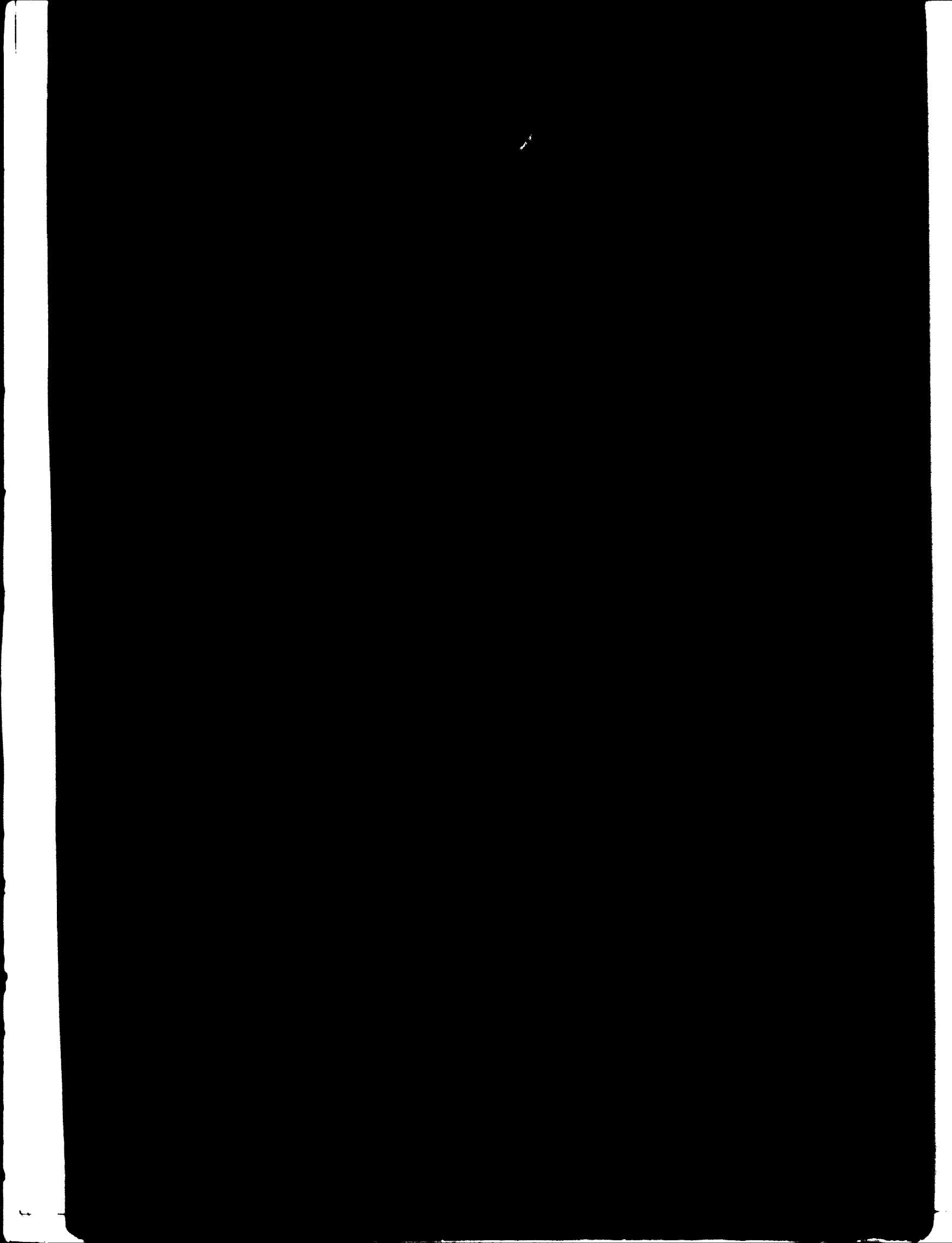
The effectiveness of assistance would be considerably enhanced if more flexibility were allowed in internal project administration. Specifically, it is suggested that travel expenses be handled more expeditiously. At present, the modus operandi seems to be that travel plans for UNIDO projects in the region have to be worked out and "frozen" three months ahead, with inadequate provisions for modifications and changes which require cumbersome review and authorization procedures.

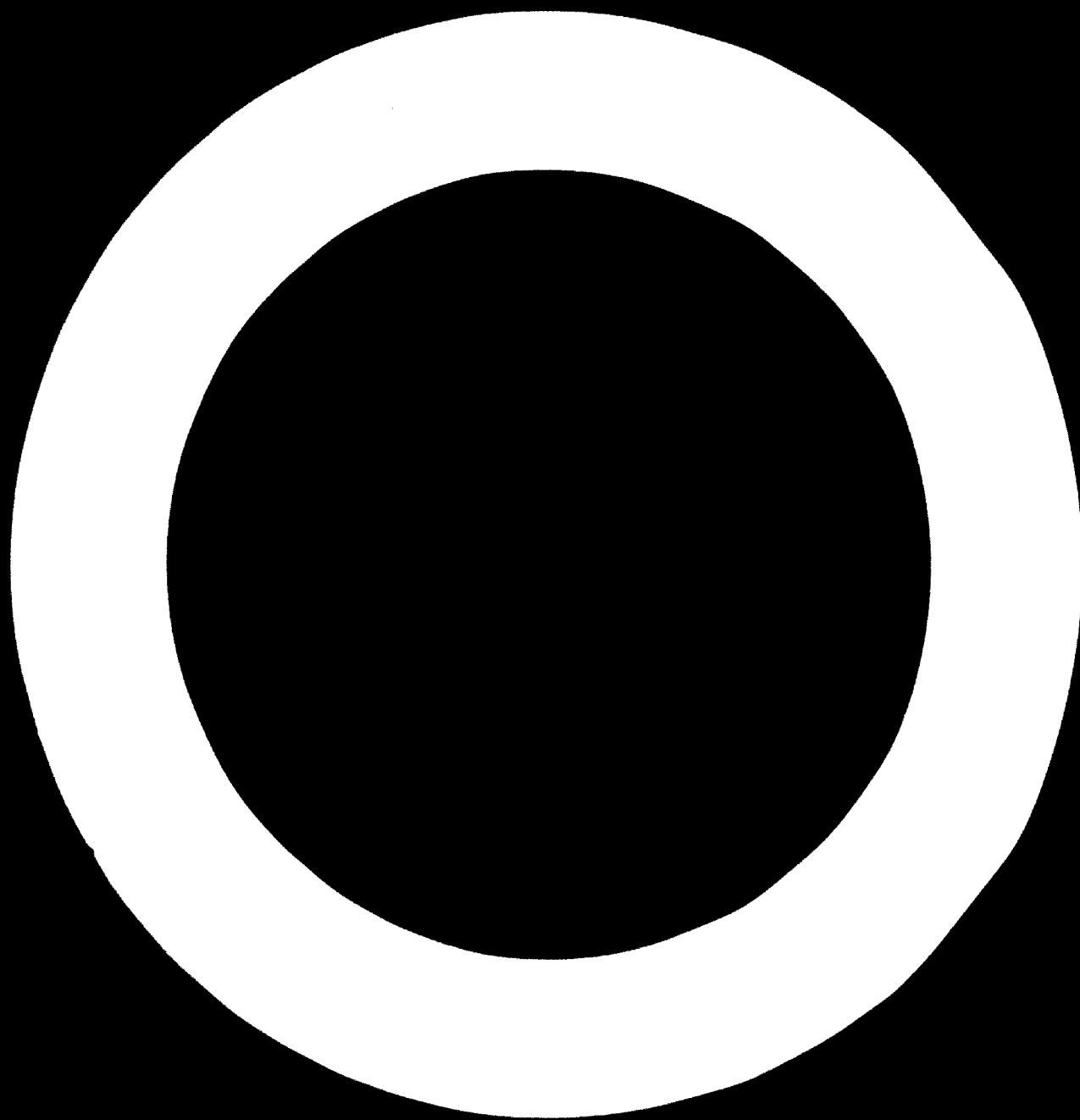
Possibly, an easier way to handle matters would be the practice followed by CFTC for their experts in the field. They get a certain travel allowance per quarter, but are free within this budget figure to schedule their trips in accordance with work priorities in the field without requiring prior approval. Such flexibility would be essential in a region where frequent inter-island travel is required to evaluate, promote and control new CIC projects.

The consultant concludes that one of the most effective ways of promoting economic development in the Eastern Caribbean would be to assist institutions that could act as catalysts and multipliers in this development process.

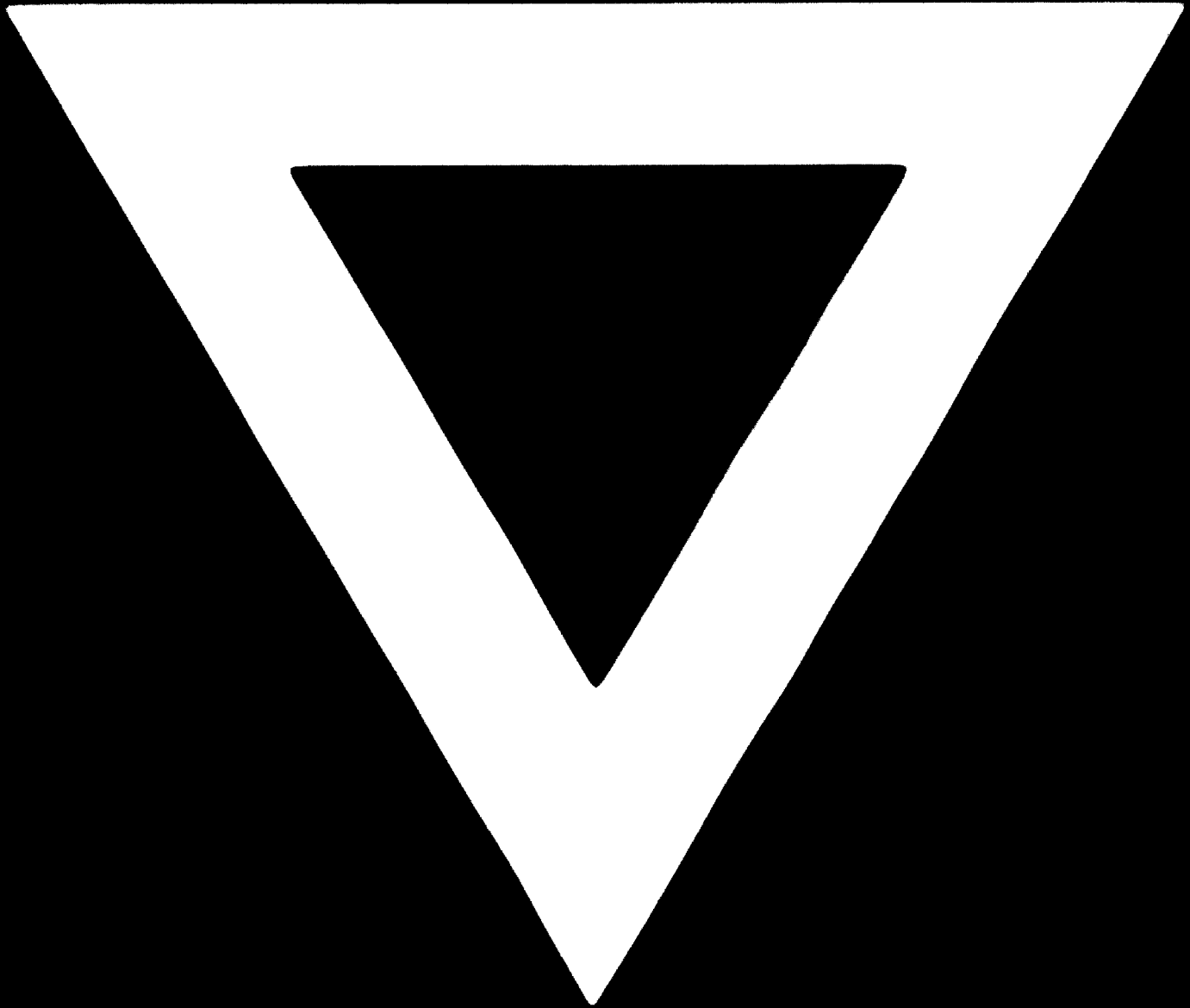
The Caribbean Investment Corporation is well suited to be such a catalyst and multiplier. As an entrepreneurially oriented development financing institution, its emphasis is on the implementation of individual projects in the ECCM region which will create employment, lessen dependence on imports, develop export income sources and provide backward linkage from tourism.

The consultant believes that the United Nations system could make an effective and immediate contribution to development efforts in the Eastern Caribbean by supporting CIC in a concentrated and comprehensive fashion.





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