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PROPOSAL FOR A COOPERATIVE AGREEMENT
BETWEEN THE GOVERNMENT OF MEXICO AND UNIDO
FOR THE PROMOTION OF INDUSTRIAL PROJECTS IN THE CARIBBEAN REGION

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I. BACKGROUND INFORMATION

The present level of technical and economic cooperation between Mexico and the Caribbean countries is very limited. However, it is evident that Mexico has an industrial and technological infrastructure which if used jointly with Caribbean resources, could help to strengthen the economies of the Caribbean countries.

Mexico has been a contributor to the Caribbean Development Bank (CDB) but the financial resources contributed by Mexico have been underutilized. It should be indicated, however, that the Mexican contribution is made in Mexican pesos (50%) and US dollars (50%) and therefore, the use of these resources requires the willingness of contractors to accept payment, at least in part, in Mexican pesos.

The Government of Mexico and the CDB recognize that the UNDP/UNIDO system in the Caribbean has the capability and resources to identify and promote industrial projects. Also it is recognized by the CDB that their loan experience with industrial projects has not been satisfactory. The CDB recognizes that UNIDO's assistance in the promotion, development and follow-up of industrial projects will help the CDB to accomplish its objectives in the Caribbean Region.

The contacts between UNIDO, the Government of Mexico and the CDB were started in 1988, as a result of an in-depth study undertaken by UNIDO to determine the status of the loans made to the Caribbean and Central American countries through the San José Agreement. This agreement signed by the Governments of Mexico and Venezuela in August 1980 provides financing to Central American and Caribbean countries for an amount equivalent to 20% of their oil purchases. The loans are granted with a payback period of 5 years at an annual interest of 8%. The financing can be extended to 12 years at an interest rate of 6% if the resources are used to develop projects useful to the economic development of the beneficiary countries.

As a result of this study two proposals were presented to the Mexican Government^{1/}; the first titled "Cooperación Técnica para el uso de Recursos del Convenio de Cooperación Financiera Mexico - Banco Centro Americano de Integración Económica (BCIE)" was presented in May 1988, and had as an objective to identify, formulate, evaluate and promote potential investment projects in the Central American Region, through the use of the Mexican contribution to BCIE.

The second proposal entitled "Technical Assistance for Investment Promotion CDB/Mexico Programme", was presented in June 1988, and had similar objectives but it also proposed to bring the projects to the execution stage and, if required, provide technical assistance in the execution of the project.

The proposal to the Caribbean Development Bank was formally presented by the Government of Mexico to the Bank during a CARICOM meeting celebrated in Mexico City in

This was followed up by visits from representatives of the Government of Mexico in 1988 and 1989 as well as by missions of UNIDO personnel. The Bank has indicated to UNIDO during its most recent mission (27 - 29 November 1989) the following (see Mission Report):

- a) CDB has had serious default problems with industrial projects financed by the Bank. Therefore, the Bank is reviewing its policies regarding lending to industrial investors.
- b) The Bank recognizes the problems resulting from industrial projects indicate a need for better project selection; technical assistance to the Bank's personnel; and-most important- technical assistance and follow-up of the project after financing has been approved.

^{1/} See Annex I for list of available documents

Two recent events have given the Bank additional elements to define a future strategy for the selection, evaluation, financing and follow-up of industrial projects:

- a) A Relationship Agreement has been signed between the Caribbean Development Bank and UNIDO.
- b) The Mexican Government has given the Bank a draft of a "Framework Agreement on Professional Upgrading and Technical Cooperation between the Government of the United Mexican States and the Caribbean Development Bank".

The Bank has informed UNIDO that the relationship agreement offers a good framework to utilize UNIDO's technical resources to assist the Bank in the promotion, evaluation, financing and follow-up of industrial projects. Also the Bank has indicated their willingness to promote the use of the Mexican contributions to develop projects in the Caribbean Region.

A very recent meeting with the Director from the Mexican Government on the CDB board, Mr. Salvador Arriola, resulted in an agreement to merge the two proposals presented to the CDB into one, in a document to be prepared in the early part of January 1990. Furthermore, the Government of Mexico is aware of the interest of the Republic of Dominica to finance an exploratory drilling of a geothermal well in Dominica, utilizing the resources of the Mexican Government at the CDB^{2/} and would like to use this as a test case.

It is concluded that there is a need to prepare a new project proposal to be presented to the Mexican Government and the CDB in the near future, and that the request made by the Government of Dominica to UNIDO offers a good opportunity to test some of the premises established in the various project proposals made by UNIDO and by the Government of Mexico to the CDB.

^{2/} A formal request for UNIDO assistance on this project was sent by Minister Alleyne J. Carbon of Dominica to Rolf Stefanson, UNDP Resident Representative in Barbados.

II. EXPERIENCE OF THE CARIBBEAN DEVELOPMENT BANK WITH INDUSTRIAL PROJECTS

II.1 Operational Experience of the Caribbean Development Bank, 1970-1988

The Caribbean Development Bank (CDB) is a regional financial institution established in 1969 for the purpose of contributing to the harmonious growth and development of the member countries in the Caribbean and promoting economic co-operation and integration among them with special regard to the needs of the less developed countries in the region.

In 1988 the CDB had 24 members of which 20 are regional members including Colombia, Mexico and Venezuela and 4 are non-regional members (Canada, France, Italy and the United Kingdom). Mexico became a member of the Bank in 1982.

The Bank provides loans on a regular and contingent basis and grants - mainly for technical assistance - from special development fund. In 1988 the Bank approved loans for a total of 65.8 million dollars and grants for a total of 8.1 million dollars. During the period 1970-1988, the total amount of loans, contingent loans, equity and grants approved added to a total of 714 million dollars.

The recent history (1985-1988) indicates that almost all loans approved by the Bank are made to governments. In 1988 of the total loans approved (65.8 million dollars) only 3.6% (2.4 million dollars) were granted to the private sector.

The Bank has also concentrated its efforts in the development of infrastructure, agriculture, forestry and fishing as shown by the following distribution of loans for the period 1970-1988.

CARIBBEAN DEVELOPMENT BANK	
Distribution of Loans, Contingent Loans, Equity and Grants by Sector (1970 - 1988)	
(%)	
<hr/>	
<u>Productive Sector</u>	39
* Agriculture, forestry and fishing	14
* Manufacturing	21
* Tourism	4
* Mining	-
 <u>Economic Infrastructure and Others</u>	 51
* Power and energy	5
* Water	4
* Transportation and communication	27
* Housing	6
* Education (including student loans)	6
* Health	1
* Sanitation	2
 <u>Multisector loans</u>	 <u>10</u>
Total	100

Finally a summary of loans approved and projects under operation at the Bank for the

years 1970-1988 is shown below.

CARIBBEAN DEVELOPMENT BANK
Project and Loan Approval 1970-1988
(1970-1988)

Total Number of Projects	491
Loans approved for capital projects	743.3 million USD
Amounts approved for technical assistance and grants	64.2 million USD
Projects under supervision (1988)	255
Operational projects (1988)	186

As indicated before the CDB provides grants for technical assistance. These grants total in 1988, 8.1 million dollars. A brief description of the application of such grants is shown in Annex II.

The CDB also operates a Caribbean Technological Consultancy Services (CTCS) which in 1988 received 211 requests for technical assistance from the small business sector, resolved 98 of these requests by placing consultants in the field and responded through written information to the rest. The CTCS provided in 1988, 152 person-weeks of consultancy services.

Finally in the case of Mexico, its contribution to the CDB is in 1988, 18.8 million dollars of which 12.5 million correspond to the subscribed capital (3.34%) and 6.3 million are an additional contribution to the CDB approved by the Government of Mexico in 1988.

II.2 OPERATIONAL POLICIES

II.2.1 Procedures for Identification, Preparation and Appraisal (Annex III)

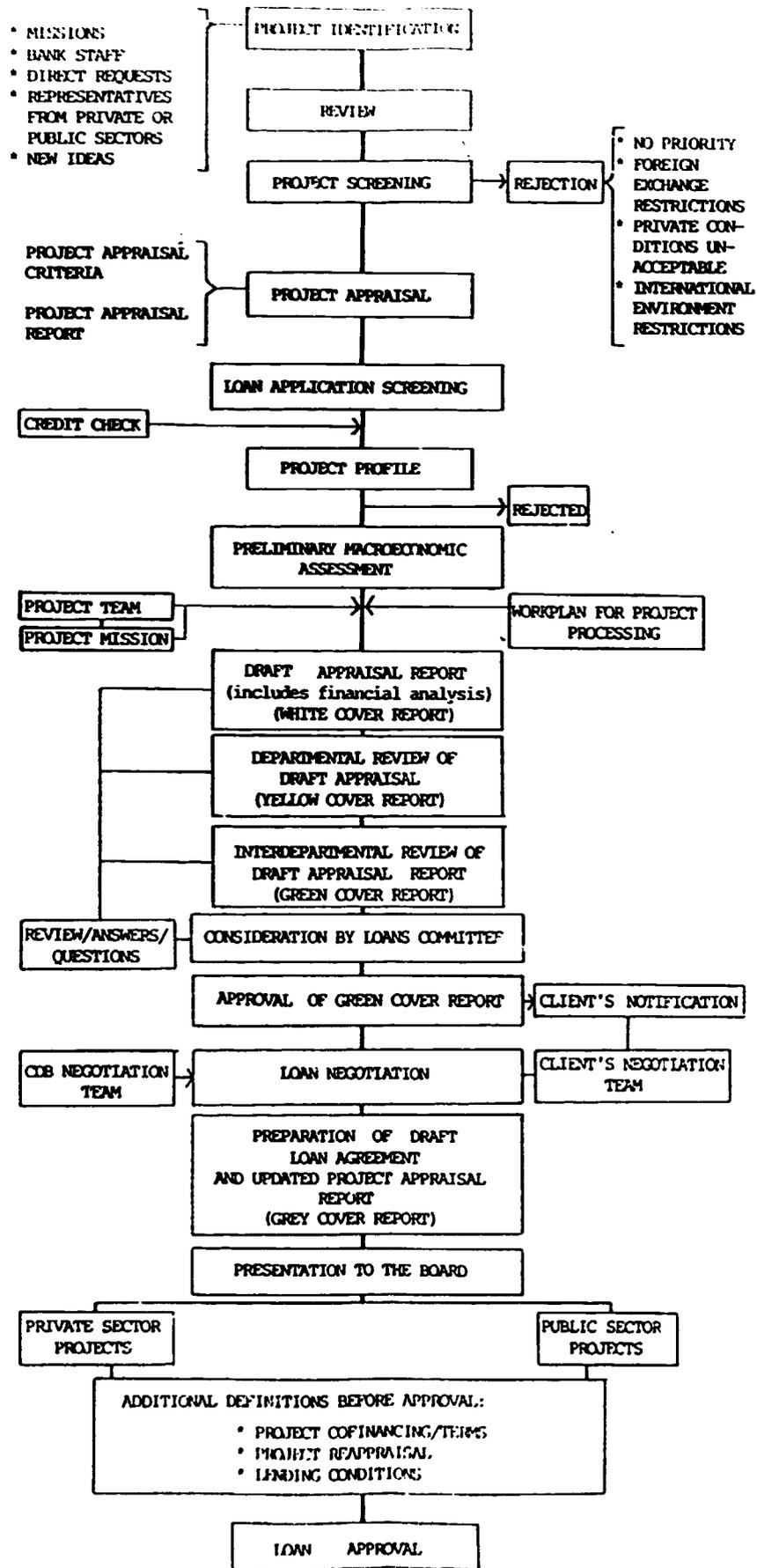
The CDB has developed specific procedures for the identification of projects, preliminary screening, appraisal, loan negotiation, and approval of projects submitted to the Bank for credit. A copy of the procedure manual is annexed to the report (Annex III). A simplified flow chart of these procedures is shown in Fig. 1

The appraisal criteria utilized by the Bank varies, in financial terms, according to the project being considered. These criteria are shown in Fig. 2.

The process of project selection and appraisal and finally of loan approval involves at various stages, the Vice-President of Operations and/or the Vice-President of Corporate Services which report directly to the President. The project appraisal procedure involves not only the technical and financial analysis of the project but also the impact of the project on the economic well being of the country, the scope for exports, the need for technical assistance, etc.

The Bank's operating policies also dictate that no loan application by a borrower who is in arrears on an earlier loan or who guarantees a loan (including loans for regional projects) which is in arrears, shall be recommended to the Board until the default has ended or satisfactory arrangements are made with the Bank for payment of the arrears, or in the case of a regional project, the loan for which has been guaranteed by the borrower, the borrower has met all its debt service obligations under the guarantee agreement between the borrower and the Bank.

FIG. 1 PROCEDURE FOR PROJECT IDENTIFICATION, SCREENING, APPRAISAL AND APPROVAL



CARIBBEAN DEVELOPMENT BANK

fig. 2

APPRAISAL CRITERIA MATRIX

PROJECTS	PRINCIPAL APPRAISAL CRITERIA					
	FRR	RETURN ON RATE BASE	CASH FLOW BREAK EVEN	FINANCIAL RATIOS	REPAYMENT AND ATTRITION	LEAST COST ANALYSIS
	I	II	III	IV	V	VI
1. AGRICULTURE	X					
2. INDUSTRY	X					
3. TOURISM	X					
4. POWER						
4.1 - RURAL ELECTRIFICATION		X				
4.2 - GENERATION		X				
4.3 - DISTRIBUTION		X				
4.4 - LOSS REDUCTION	X					
5. TELECOMMUNICATIONS		X				
6. WATER		X				
7. SEWERAGE						
8. INDUSTRIAL ESTATES			X			
9. TRANSPORT						
9.1 - FEEDER ROADS						X
9.2 - HIGHWAYS						X
9.3 - PORTS AND HARBOURS	X					
9.4 - AIRPORTS			X			
9.5 - AIRLINES	X					
10. CONSOLIDATED LINES OF CREDIT				X		
11. STUDENT LOANS					X	

II.2.2 Procurement Procedures

The procedures developed by the Bank for the choice of consultants and for the procurement of goods and services from contractors differ from those of UNIDO and due consideration has to be given to these differences in a working relationship between UNIDO and the Bank. A brief summary of these procedures is given below.

II.2.2.1 Procedures for Choice of Consultants (Annex IV)

Consultants may be employed by the Bank for technical assistance programmes financed by the Bank, for studies where CDB is the executing agency, or where it is necessary to supplement the Bank's staff for project appraisal and execution.

If a project is being developed by a borrower, it may find it convenient and desirable to select and employ consultants, the borrower being responsible for the selection of the consultant. However it is required to satisfy the Bank regarding the competence and functions of the consultants to be engaged.

Consultants are generally required to be independent of any contractor or manufacturing firm. However, firms falling under this category may be employed if they agree to limit their role to that of consulting engineers and disqualify themselves or their affiliates from any other work in any other capacity on the same project.

Advertising is required if the works involved in the project for which the consultants are to be employed cost more than US200,000, and/or if the consultant fees and expenses exceed US50,000.

If advertising is required publications should be made in newspapers and sent simultaneously to official representatives in the borrower's territory, to other CDB member states and territories and to official representatives of the other eligible countries.

If advertising is not required written notification should be sent simultaneously to the official representatives of eligible countries. The borrower may then choose a qualified consultant from a list of at least three consultants submitted to, and approved by the Bank.

II.2.2.2 Procedures for Procurement of Goods and Services (Annex V)

All procurement contracts are generally made on the basis of tenders either in response to advertising or in response to letters of invitation to at least three competent contractors or suppliers. Exceptions are:

- a) If the disbursement does not exceed US30,000 goods may be purchased of-the-shelf without letters of invitation.
- b) If the disbursement exceeds US30,000 but is less than US500,000 contracts are awarded on the basis of response to letters of invitation to at least three qualified contractors.
- c) If the disbursement exceeds US500,000 contracts are awarded on the basis of response to solicitation advertisements.

As a normal practice the Bank does not require pre-qualification for suppliers of goods and services. There may be exceptions to this rule for large, complex contracts.

A minimum number of three bids is required and awards are made to the lowest cost bid able to meet the appropriate standards of capability and financial responsibility.

Some of these conditions may be waived if a Special Development Fund (SDF) is utilized to finance the project. In such cases advertising may be restricted to the country providing the financing and contractors selected and invited to bid from a short list prepared jointly between the Bank and the country providing the financing.

III. A PROPOSAL FOR A COOPERATIVE AGREEMENT BETWEEN UNIDO/THE GOVERNMENT OF MEXICO AND THE CARIBBEAN DEVELOPMENT BANK

Three separate agreements have now been presented to the CDB by UNIDO and the Government of Mexico. Of these three agreements only the "Relationship agreement between the Caribbean Development Bank and the United Nations Industrial Development Organization" has been signed.

The two agreements presented by the Government of Mexico to the CDB are complementary in their objectives. The agreement between UNIDO and the CDB has as objectives the promotion, programming and implementation of industrial investment projects which will result in the strengthening of transfer of technology and commerce between Mexico and the Caribbean community.

The draft agreement presented by the Government of Mexico to the CDB proposes the upgrading of human resources and the expanding of scientific and technical capabilities in the Caribbean through:

- a) the establishment of training programmes;
- b) the organization of conferences and seminar in key areas of interest to the Caribbean community;
- c) the provision of Mexican experts to support working programmes of companies and government institutions and/or undertake specific tasks in areas of interest to the Caribbean countries.

Since the only agreement formally executed is that between UNIDO and the CDB it is proposed that the following steps be undertaken with the objective of establishing at UNIDO a Mexican Trust Fund to promote investment projects and the use of Mexican expertise and technology in the Caribbean region.

- 1) Under the framework of the UNIDO-CDB agreement (Article IV, and paragraph 1 of Annex to the agreement) prepare a preparatory project, to be funded by UNIDO where joint exploratory work is carried to identify at least three specific projects for which detailed

proposals will be prepared for funding and execution by Mexico. The proposals will clearly establish objectives, work programme, cost, sources of financing and will propose Mexican consultants who can carry out the job.

UNIDO's funding will be limited to travel expenses and the designation of a project co-ordinator who will be responsible for the execution of this preliminary phase.

- 2) Incorporate as one of the proposals the project for drilling of two exploratory geothermal wells in Dominica. A request has already been made to UNIDO to provide technical assistance for preparatory work in negotiations leading to the contracting of the job. Dominica has indicated their interest to utilize the resources from the Mexican contributions to the CDB. The CDB has endorsed in principle this project.
- 3) On the basis of the three specific proposals selected prepare a project for the designation of a Mexican Trust Fund at UNIDO to:
 - a) Execute the specific proposals prepared in the preparatory phase utilizing Mexican expertise supported-if necessary-by UNIDO experts.
 - b) Organize a programme of seminars and conference to promote the use of Mexican technology and expertise throughout the Caribbean.
 - c) Propose the establishment of training programmes in previously selected areas of interest to the Caribbean Community to be executed under the framework agreement between UNIDO and the CDB and using Mexican experts.
 - d) Identify, evaluate and carry to the financing stage specific projects to be financed from the Mexican contributions to the CDB.

IV. ACTION PROGRAMME

<u>Date</u>	<u>Action</u>
January 15, 1990	Establish a preliminary agreement with the Ministry of Finance in Mexico-Office of International Transactions (Representative of Mexico to the CDB) to carry out phase 1 of the proposed programme. It is highly desirable that this initial phase be carried out through a project to be funded by the IDF in UNIDO. It is estimated that the cost of this project will not exceed US40,000 and it will facilitate the appropriation of funds from Mexico to the IDF.
March 30, 1990	Present specific proposals for financing to the Government of Mexico and the CDB.
April 30, 1990	Prepare proposal for Mexican Trust Fund at UNIDO and conclude negotiations for financing of specific projects at CDB utilizing Mexican expertise.
June 30, 1990	Conclude negotiations for Mexican Trust Fund and initiate activities under the provisions of the agreement between UNIDO and the CDB.

ANNEX I

Documents on file:

- 1) Cooperación técnica para el uso de los recursos del Convenio de Cooperación Financiera Mexico-Banco Centroamericano de Integración Económica (BCIE).

UNIDO project proposal to the Secretaria de Hacienda y Crédito Público, Mexico, Mayo 1988.

- 2) Project of the Caribbean Development Bank (CDB) through a contribution of the Government of Mexico. Technical assistance for investment promotion CDB/Mexico Programme.

UNIDO project proposal to the Secretaria de Hacienda y Crédito Público, Mexico, June 1988.

- 3) Mission Report, visit to the Caribbean Development Bank, and the Republic of Dominica, November 27 - 30, 1989..
- 4) Caribbean Development Bank, Annual Reports 1985, 1986, 1987, 1988.
- 5) Caribbean Development Bank "Operational Policies and Procedures Manual", Vol. 5 "Identification, Preparation and Appraisal".
- 6) Caribbean Development Bank, "Guidelines for Procurement".
- 7) Caribbean Development Bank, "Guidelines for Choice of Consultants".
- 8) Draft Proposal, "Framework Agreement on Professional Upgrading and Technical Co-operation between the Government of the United Mexican States and the Caribbean Development Bank", presented by the Government of Mexico to the CDB.
- 9) Letter to Mr. Rolf Stefanson, UNDP Representative in Barbados, from Mr. Alleyne J. Carbon, Minister for Communications, Works and Housing. Commonwealth of Dominica.

CARIBBEAN DEVELOPMENT BANK

Gross Grant Approvals by Country and by Fund Resources - 1988
(\$'000)

Country/Purpose	SDF	IDB	UNDP	German	BNTF	Total
Anguilla						
Institutional Strengthening of Electricity Unit	-	80	-	-	-	80
Institutional Strengthening of Development Board	87	-	-	-	-	87
Basic Needs Trust Fund Project	-	-	-	-	133	133
Sub-Total	87	80	-	-	133	300
Antigua and Barbuda						
Basic Needs Trust Fund Project	-	-	-	-	266	266
Sub-Total	-	-	-	-	266	266
Belize						
Airport Improvement	174	-	-	-	-	174
Institutional Strengthening of Belmopan Hotels	117	-	-	-	-	117
Basic Needs Trust Fund Project	-	-	-	-	590	590
Sub-Total	291	-	-	-	590	881
British Virgin Islands						
Basic Needs Trust Fund Project	-	-	-	-	160	160
Sub-Total	-	-	-	-	160	160
Dominica						
Improvements of Administrative and Operational Capabilities of DAIDB	-	33	-	-	-	33
Export Development of Agro Industries Ltd.	-	-	-	36	-	36
Basic Needs Trust Fund Project	-	-	-	-	590	590
Sub-Total	-	33	-	36	590	659
Grenada						
Basic Needs Trust Fund Project	-	-	-	-	540	540
Sub-Total	-	-	-	-	540	540
Guyana						
Energy Conservation in Power and Industrial Sectors	-	-	-	216	-	216
Sub-Total	-	-	-	216	-	216
Montserrat						
Basic Needs Trust Fund Project	-	-	-	-	75	75
Sub-Total	-	-	-	-	75	75
St. Kitts and Nevis						
Industrial Development Specialist - DFC	-	98	-	-	-	98
Basic Needs Trust Fund Project	-	-	-	-	478	478
Sub-Total	-	98	-	-	478	576
St. Lucia						
Services of Manager for Livestock Development Co. Ltd.	-	-	33	-	-	33
Basic Needs Trust Fund Project	-	-	-	-	590	590
Sub-Total	-	-	33	-	590	623
St. Vincent and the Grenadines						
Agricultural Credit Specialist - Orange Hill Project	-	215	-	-	-	215
Preliminary Designs and Cost Estimates for Highway Reconstruction	-	24	-	-	-	24
Basic Needs Trust Fund Project	-	-	-	-	590	590
Sub-Total	-	239	-	-	590	829

Gross Grant Approvals by Country and by Fund Resources - 1988 (Continued)
(\$'000)

Country/Purpose	SDF	IDB	UNDP	German	BNTF	Total
Trinidad and Tobago						
Feasibility Study of Oropouche Area Development	-	50	-	-	-	50
Sub-Total	-	50	-	-	-	50
Turks and Caicos Islands						
Basic Needs Trust Fund Project	-	-	-	-	108	108
Sub-Total	-	-	-	-	108	108
Regional						
Caribbean Telecommunications Union						
Workshop for Administrators	30	-	-	-	-	30
Institutional Strengthening of CARICAD	80	-	-	-	-	80
Agricultural Diversification Consultative Meeting	8	-	-	-	-	8
Training Course on Effective Expenditure Control System	63	-	-	-	-	63
Field Visits for Agricultural Diversification in OECS	10	-	-	-	-	10
Training Course on Techniques and Practice of Economic and Financial Journalism	61	-	-	-	-	61
Installation of UNCTAD's Automatic System for Customs Data Acquisition (ASYCUDA)	187	-	-	-	-	187
Regional Tourism Information and Planning System	241	-	-	-	-	241
Study of Operations of WISCO	24	-	-	-	-	24
Consultative Meeting on Final Draft Agricultural Diversification Programme Document for OECS	7	-	-	-	-	7
Workshop/Seminar on CDB's Industrial Estate Programme	21	-	-	-	-	21
Trade and Investment Exposition	35	-	-	-	-	35
Training Course in Project Preparation and Management	106	-	-	-	-	106
Computerisation of DFC Accounts *	20	-	-	-	-	20
CFC Study on the Arrangements for Import Permit by Caricom States	-	-	9	-	-	9
Basic Needs Trust Fund Project	-	-	-	-	1,880	1,880
Sub-Total	893	-	9	-	1,880	2,782
Grand Total	1,271	500	42	252	6,000	8,065

* Additional grant made to supplement previous grant.