

A.I.D. EVALUATION SUMMARY - PART I

PD-ABC-055

1. BEFORE FILLING OUT THIS FORM, READ THE ATTACHED INSTRUCTIONS.
2. USE LETTER QUALITY TYPE, NOT "DOT MATRIX" TYPE.

IDENTIFICATION DATA

A. Reporting A.I.D. Unit: Mission or AID/W Office (ES# <u>538-90-05</u>) <u>RDO/C</u>		B. Was Evaluation Scheduled in Current FY Annual Evaluation Plan? Yes <input type="checkbox"/> Slipped <input checked="" type="checkbox"/> Ad Hoc <input type="checkbox"/> Evaluation Plan Submission Date: FY '89 Q <u>3rd</u>		C. Evaluation Timing Interim <input checked="" type="checkbox"/> Final <input type="checkbox"/> Ex Post <input type="checkbox"/> Other <input type="checkbox"/>	
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D. Activity or Activities Evaluated (List the following information for project(s) or program(s) evaluated; if not applicable, list title and date of the evaluation report.)

Project No.	Project /Program Title	First PROAG or Equivalent (FY)	Most Recent PACD (Mo/Yr)	Planned LOP Cost (000)	Amount Obligated to Date (000)
538-0133	Small Enterprise Assistance	86	2/91	\$11,850	\$10,741

ACTIONS

E. Action Decisions Approved By Mission or AID/W Office Director Action(s) Required		Name of Officer Responsible for Action	Date Action to be Completed
- Provide adequate resources to the small and medium enterprise technical assistance and training activity - Determine with CAIC a realistic approach to enhancing its capability to design and execute development projects.		P. Medford P. Medford	These matters will be addressed during design of the follow-on project. Obligation should occur before 12/31/90
Clearances: Pat Carmichael, CAIC (In Draft) Charles Patalive, C/PSO (In Draft) John Wooten, A/D/DIR <u> </u>		(Attach extra sheet if necessary)	

APPROVALS

F. Date Of Mission Or AID/W Office Review Of Evaluation: (Month) (Day) (Year)

G. Approvals of Evaluation Summary And Action Decisions:

	Project/Program Officer	Representative of Borrower/Grantee	Evaluation Officer	Mission or AID/W Office Director
Name (Typed)	Peter Medford		Darwin Clarke	Aaron Williams
Signature	<i>P. Medford</i>		<i>D. Clarke</i>	<i>A.S. Williams</i>
Date	10-5-90		10/05/90	10/30/90

ABSTRACT

H. Evaluation Abstract (Do not exceed the space provided)

The Small Enterprise Assistance Project has two main components resulting from a merger in 1987. One component is aimed at revitalizing and sustaining the implementing institution, the Caribbean Association of Industry and Commerce, which is the regional private sector umbrella organization, while the other element focuses on the development of small, medium and micro-enterprises (SMEs) in the Eastern Caribbean states. This evaluation was conducted by Louis Berger International, Inc. on the basis of a document review, (including two prior related evaluations done by them) and through interviews with project personnel and beneficiaries in more than nine countries. The purpose of the evaluation was to assess the extent to which CAIC had established itself as a broad-based private sector representational organization capable of delivering services (including developmental) to its members.

The Major Findings and Conclusions are:

- CAIC has made significant progress towards adjusting its structure to the requirements of development program delivery.
- CAIC is now a broad-based organization and has acquired recognition in the communities at large as a knowledgeable and responsible advocate of private sector view points.
- It has significantly improved its internal management system, particularly financial controls and financial reporting.
- The project has had a favorable impact on local and regional supporting services for small and medium enterprises. There has also been beneficial social and psychological gains in that the availability of good business advice has lessened the belief that class and ethnic distinctions serve as serious barriers to business success in the Eastern Caribbean. Technical assistance and training recipients expressed satisfaction with the assistance provided to them. Such assistance has taken the form of in-plant consultancies, on the job training in the application of simple technologies, and strategic business planning.

C O S T S

I. Evaluation Costs				
1. Evaluation Team		Contract Number OR TDY Person Days	Contract Cost OR TDY Cost (U.S. \$)	Source of Funds
Name	Affiliation			
H. Lerner	LLBII	29		
D. Khan	LLBII	27.2		
B. Phillips	LLBII	44	\$80,221	538-0133
A. Armstrong	Individual Contractor	33		
2. Mission/Office Professional Staff Person-Days (Estimate) _____ 10 _____		3. Borrower/Grantee Professional Staff Person-Days (Estimate) _____ 20 _____		

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A.I.D. EVALUATION SUMMARY - PART II

SUMMARY

J. Summary of Evaluation Findings, Conclusions and Recommendations (Try not to exceed the three (3) pages provided)

Address the following items:

- | | |
|--|--|
| <ul style="list-style-type: none"> • Purpose of evaluation and methodology used • Purpose of activity(ies) evaluated • Findings and conclusions (relate to questions) | <ul style="list-style-type: none"> • Principal recommendations • Lessons learned |
|--|--|

Mission or Office: RDO/C - PSO	Date This Summary Prepared: February 1990	Title And Date Of Full Evaluation Report: Evaluation of Small Enterprise Assistance Project - December 1989
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1. Purpose of the Evaluation and Methodology Used

The evaluation had two principal foci (a) to assess the progress which had been made in delivering assistance to the Small and Medium Enterprises (SME) and (b) to examine whether any changes had occurred in CAIC's organizational structure as a result of recommendations from a prior evaluation and whether member service and development assistance delivery were enhanced as a result of the changes.

2. Purpose of Activity Evaluated

The purpose of the Small Enterprise Assistance Project was to make resources available to the small, medium and micro-enterprises which do not have access to the formal financial system for credit and which require technical assistance and training to produce efficient enterprises and equip them for growth.

The evaluation was principally conducted through document review and field surveys. Following the development of an action plan in Barbados, and meetings with the implementing agency and local participating institutions, visits were made to the other Caribbean islands for meetings with participating institutions and selected beneficiaries.

3. Findings, Conclusions & Recommendations

CAIC - General

o In the past two years, CAIC had made commendable progress in adjusting its structure to the requirements of development program delivery. The tension between the policy advocacy and development functions which existed two years ago has noticeably abated, but there is further room for rationalizing these two functions.

Most corporate members view the organization's policy advocacy functions as the service in which they are most interested. On the whole, they are quite satisfied with what CAIC is doing in this whole area. However, those organizational members who are served by the local Affiliate Development Program would like CAIC to provide them with more funds and services.

o CAIC has made very great strides in improving its internal management systems, particularly its financial controls and financial reporting. It is now a leaner and more cost-effective institution and has made some progress toward financial self-sufficiency.

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o CAIC's Regional Coordinating Unit (RCU) has reached its SME constituency by utilizing the skills of its own staff, by using delivery organizations such as the International Executive Service Corps, and by working through National Delivery Institutions (NDIs) located in each country. Judging from its early performance, the NDI structure is an appropriate and effective choice as the main channel for service delivery. However, staff capabilities at both the RCU level and in the NDIs should be enhanced as the volume of activity expands. Further delegation of authority to the national level also will be required.

CAIC-Specific

o CAIC's present committee structure reflects the substantial influence of the Mission at a time when institutional development objectives dominated RDO/C's thinking about its private sector strategy in the region. That influence resulted in the creation of one very useful and effective new committee, the SEA Policy Committee, but it also produced more new committees than the CAIC could effectively staff and support. The policy committees for the Caribbean and for the OECS turned out not to have influence, resources or staff support and were essentially still-born. Current de facto arrangements for policy consideration by CAIC Board Committees appear satisfactory.

CAIC should now review its committee structure with a view to eliminating moribund committees and formally transferring their key functions to the more active committees with appropriate regional perspectives.

o CAIC is viewed by the public sector in the Caribbean as a knowledgeable and responsible advocate of private sector viewpoints. CAIC has had continuing access to the public sector in the highest levels of Government and in regional institutions. As a result of a recent assessment, CAIC is making needed changes to its communications program.

o The SEA Project has helped to soften the impression that CAIC's primary interest is in the region's large firms. The SEA project's practical assistance in improving SME business performance received high praise, along with CAIC's assistance in obtaining desired policy changes.

o CAIC's internal management has been vastly improved as a result of the appointment of a Deputy Executive Director and a Financial Controller, and movement toward the objective of separating "baseline" (traditional business association) functions from development functions has occurred. Financial reporting, budgeting, and cost control systems are now in place. CAIC should monitor arrearages and bad loan rates for National Development Foundation/Women In Development (NDF/WID) loans specifically financed by A.I.D. funds as a matter of good practice. The talents of the personnel of the Finance Department in systems and financial analysis could be utilized to contribute to improvements in the monitoring system to better measure changes in financial conditions and strategies of its implementing institutions.

o CAIC has followed three basic strategies to improve its viability: cutting costs, increasing revenues from membership dues, and increasing income from services. Although it has made progress in each of these areas, it is not yet certain whether the measures taken thus far will close the gap. Apart from deriving more income from dues and the services which it presently renders, one area worth consideration is that of providing services in the area of computers and computerization.

Summary of Evaluation Findings, Conclusions and Recommendations - Cont'd

One expectation of the Fund designers was that the loans would have lower overhead costs per dollar than do NDF loans because less technical assistance would be required. On the basis of the limited evidence presently available, it is conceivable that the loans actually made will not result in higher net margins than those of conventional NDF loans. However, it is also possible that the program will turn out to have characteristics that would justify its replication elsewhere in the OECS.

o RCU has supported four marketing research and training programs attended by 17 entrepreneurs engaged in agri-processing, crafts, furniture, footwear, printing and other fields. These programs have been successful to the extent that some participants complained that they received more leads and opportunities for orders than they could possibly handle. The approach taken deserves replication.

4. Lessons Learned

o In implementing a multi-component project which seeks to introduce new facilities or programs, a sequencing of activity commencement offers a greater likelihood for success than attempting to start all activities at once. Time and resources should be provided for testing new approaches or mechanisms.

o Where a project is aiming to produce social interactions, the flow of resources should never be pre-conditioned on the achievement of that objective.

Small & Medium Enterprise Assistance

o During the first three years of the project, RCU's effectiveness was adversely affected by the conditions precedent requiring the formation of National Co-ordinating Committees (NCCs) prior to undertaking national-level operations. Performance also was affected by the multiple responsibilities of the Regional Coordinator who doubled as CAIC's Deputy Executive Director for nine months. RCU's operating procedures are satisfactory, but the personnel of the unit would benefit from training in project management.

The project has had a favorable impact on local and regional supporting services for SMEs. That favorable impact is likely to increase as the SME program gathers momentum.

The growing list of SEAP interventions carried out by regional professionals in combination with favorable reports by recipients suggests an expanded capacity to apply their skills to this target group. If RDO/C assistance were to cease in the near future, it is doubtful that the favorable impact on local and regional supporting services would be long sustained.

The Evaluation team's field visits also showed that there have been beneficial social and psychological gains as well as favorable economic impacts in terms of exports and employment opportunities from the SME component of SEAP.

For the most part, the SEAP assistance has been directed to firms and business-people who have been considered as outsiders by the Caribbean business elite. As these businesses have expanded and become more profitable, SEAP has helped to change the attitudes of small businessmen towards their own destinies. In the process, their attitudes toward CAIC and their local business associations has changed.

o CAIC's selection of National Delivery Institutions (NDIs) has been based on criteria which combine considerations of organizational competence and representativeness among types of Caribbean business institutions.

The pace of delivery of SME assistance has speeded up since the NDIs started their activities in 1988. It is quite apparent, however, that (1) the SEA program functions are taking more of the time of NDI personnel than originally envisioned, and (2) NDI personnel require training in carrying out their new functions. The NDI appears to operate most effectively where, as in Grenada, they have an active outreach program or where, as in St. Lucia the NDI is closely identified with an SME constituency. As the pace of delivery of services to SMEs accelerates, it is important that the NDIs acquire, or be provided with, access to the substantive skills and knowledge needed to carry out diagnostic, intervention packaging, and monitoring tasks.

o The Dominica Working Capital Fund (DWCF) is an innovative program which was undertaken in September 1988 to provide working capital loans to firms unable to secure such financing from commercial banks. The program was undertaken at a time when local banks were highly liquid and thus more lenient than is normally the case. Thus the pilot program in Dominica has moved more slowly than anticipated.

ATTACHMENTS

K. Attachments (List attachments submitted with this Evaluation Summary; always attach copy of full evaluation report, even if one was submitted earlier; attach studies, surveys, etc., from "on-going" evaluation, if relevant to the evaluation report.)

Final Report - Evaluation of Small Enterprise Assistance Project (538-0133)

COMMENTS

L. Comments By Mission, AID/W Office and Borrower/Grantee On Full Report

Both RDO/C and the Grantee consider the report to be well written and balanced in content and perspective. The report is a quality document and goes beyond the requirements of the Scope of Work to offer recommendations for a RDO/C/CAIC long term relationship. It also presents a perspective on the potential for sustainability of CAIC's various functions. The report is being used as a principle reference for design of SEAP II and the Mission is confident that the recommendations made will be seriously considered by the design team.

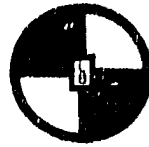
XD-ABC-055-A

**FINAL REPORT
EVALUATION OF
SMALL ENTERPRISE ASSISTANCE PROJECT**

*Prepared for USAID RDO/Caribbean
Under Contract No. 538-0133-C-00-9114-00
December 1989*

**LOUIS BERGER INTERNATIONAL, INC.
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December 14, 1989

Mr. Peter Medford
Project Officer
Regional Development Office/Caribbean
US Agency for International Development
P. O. Box 302
Bridgetown, Barbados

**SUBJECT: Final Report of Evaluation of Small Enterprise
Assistance Project (Contract 538-0133-C-00-9114-00)**

Dear Peter:

Enclosed are twenty-five copies of the Final Report for the referenced assignment. It was a pleasure working with RDO/C and you again.

Best regards.

Sincerely,

Harvey A. Lerner
Project Supervisor

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LIST OF TERMS AND ABBREVIATIONS

ACP	Africa-Caribbean-Pacific
BIAMP	Barbados Institute of Management and Productivity
C/CAA	Caribbean Central American Action
CAIC	Caribbean Association of Industry and Commerce
CALA	Canadian Association-Latin America/Caribbean
CARICOM	Caribbean Common Market
CARISEC	CARICOM Secretariat
CBI	Caribbean Basin Initiative
CBIN	Caribbean Information Network
CCL	Caribbean Confederation of Labor
CDB	Caribbean Development Bank
CE	CARICOM Enterprise
CECM	Council of Eastern Caribbean Manufacturers
CEO	Chief Executive Officer
CER	CARICOM Enterprise Regime
CFSC	Caribbean Financial Services Corporation
CHA	Caribbean Hotels Association
CHOG	CARICOM Heads of Government
CLI	Caribbean Law Institute
CMC	Caribbean Manufacturers Council
CMD	Communication Membership Development
DAIC	Dominica Association of Industry and Commerce
DWCF	Dominica Working Capital Fund
ECODEF	Eastern Caribbean Organization of Development Foundations
EEC	European Economic Community
ERAD	Economic Research and Analysis
FIT	Foundation for International Training
FY	Fiscal Year
HIAMP	High Impact Agricultural Marketing and Production
IADB/IDB	Inter American Development Bank
IECS	International Executive Service Corporations
IMF	International Monetary Fund
JCG	Joint Consultative Group
LADP	Local Affiliate Development Program
LBII	Louis Berger International, Inc.
LDC	Lesser Developed Countries
MDC	Moderately Developed Countries
NCC	National Coordinating Committee
NDF	National Development Foundation
NDFD	National Development Foundation of Dominica
NDI	National Development Institution
NGO	Non-Government Organizations
NRDF	National Research and Development Foundation of St. Lucia
OAS	Organization of American States
OECS	Organization of Eastern Caribbean States
PACD	Project Activity Date
PSIAP	Private Sector Investment Assistance Project
PVO	Private Voluntary Organization
RCU	Regional Coordinating Unit

RDO/C	Regional Development Office/Caribbean (USAID Mission)
REPP	Regional Export Promotion Project
SBIC	Small Business Investment Company
SEA	Small and Medium Enterprise Assessment
SEAP	Small and Medium Enterprise Assessment Project
SME	Small and Medium Enterprise
TAD	Training and Affiliate Development Department
USAID	United States Agency for International Development
WID	Women In Development

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EXECUTIVE SUMMARY

THE PROJECT

The Small Enterprise Assistance (SEA) Project has two main components. An "SME/NDF component," undertaken as the original SEA Project in February, 1986, accounts for the larger amount of the project funding. The "CAIC core component," had its origin in 1981 as the Private Sector Investment Assistance Project (PSIAP). PSIAP was merged into the SEA Project by amendment in 1987.

The merged project serves three distinct Caribbean business constituencies:

- (1) relatively large regional businesses, most of them headquartered in Barbados, Trinidad, and Jamaica;
- (2) medium and small firms mostly located in the OECS States and Barbados; and
- (3) microenterprises mostly located in the OECS States and in Barbados.

The "CAIC core component" which the SEA project acquired from PSIAP by merger in 1987 consisted of elements aimed mainly at revitalizing and sustaining an organization which looked for leadership to the larger Caribbean regional firms. PSIAP funds defrayed some of CAIC's costs of membership expansion programs, studies used for policy advocacy in national and regional fora, training and technical assistance for selected firms, an information network used for sharing export and investment opportunities, assistance to national and sub-regional business institutions, as well as in building the membership of the organization itself. While PSIAP served some firms that were medium-sized by Caribbean standards (and small by those used in the United States), the project was, in the pre-SEA years, primarily identified with a program of enlightened business leadership supported by the larger firms in the More Developed Countries (MDCs).

The original SEA Project (before the merger with PSIAP) sought to combine a new focus on the needs of small and medium-sized firms in the region with a continuation of RDO/C assistance to micro-businesses through National Development Foundations (NDF's) in the OECS countries and through Women in Development, Inc. (WID) in Barbados. RDO/C's assistance to the NDF's previously had been funnelled through the Dominica Small Enterprise Development Project (Project Number 538-0079) and the National Development Foundation Assistance Project (Project Number 538-0136). The SEA project also sought to achieve closer collaboration among the various elements of the business communities in the OECS countries.

RECENT PROGRESS

In 1987, at the time the Private Sector Investment Assistance Project was merged into the SEA project, it was clear that RDO/C's initial support of CAIC's revitalization efforts had been largely successful. CAIC had established itself as a respected and constructive influence on the business community and on public policy in the Caribbean region. Nevertheless, CAIC's handling of its development functions had been quite uneven, ranging from very good in some cases to quite poor in others. Fundamentally, it was apparent that:

1. Substantial improvements were required in CAIC's ability to handle the administrative requirements of AID financing.
2. The organization had not resolved underlying dilemmas posed by the intermixing of advocacy and development functions.
3. Relationships between RDO/C and CAIC were too frequently strained, and too often characterized by a mutual intolerance of the distinctly different management styles of each of the two organizations.
4. CAIC lacked a realistic and clearly articulated financial strategy for the future.

Two years later, both CAIC and RDO/C have made very substantial progress in the first three of these areas. In these two years, CAIC also has become a leaner, better integrated, more cost-effective organization for the delivery of development services. Nevertheless, fundamental problems of financial strategy and organizational destinies remain.

APPROACH TO EVALUATION

Project performance is examined in two ways in this evaluation. The first approach is to review what has been accomplished in the initial years of the project against targets and/or reasonable expectations in the areas specified in our Evaluation Scope of Work. The second approach is to look at future challenges faced by the project (mainly in the areas of finance and sustainability) and to examine how what is being done measures up to those challenges.

It now seems virtually certain that project funds will be spent at a much more rapid rate than originally anticipated during the remainder of the project period. Accordingly, RDO/C and CAIC are

likely to face difficult issues well in advance of the presently scheduled PACD. The bottom line questions will have to do with RDO/C's willingness to put more money into the SEA Project and to continue its support well beyond the levels and time periods currently contained in the project documents. Specifically, in 1991 or before, should RDO/C extend and/or expand financial assistance to:

1. CAIC's "baseline" core functions of policy advocacy, membership development, and local affiliate development?
2. RCU's SME program?
3. NDFs and WID?
4. CAIC's "development-oriented" core functions of administration and training?

While definitive answers to these questions are well beyond the scope and resources of the present evaluation, we have sought to present our findings and judgments in ways that will be of assistance to organizations which will be making hard judgments on these questions in the future.

MAIN FINDINGS AND RECOMMENDATIONS

The Scope of Work for our present evaluation defines a traditional, largely retrospective, mid-term evaluation. It is organized under three headings: "CAIC - General", "CAIC - Specific" and "Small and Medium Enterprise Assistance".

Our findings and recommendations with respect to each of the items listed in the Evaluation Scope of Work are as follows:

CAIC - General

I-1. In the past two years, CAIC has made commendable progress in adjusting its structure to the requirements of development program delivery. It has been very responsive to recommendations for organizational change made by RDO/C and by consultants and auditors. The tension between the policy advocacy and development functions which existed two years ago has noticeably abated, but there is further room for rationalizing the organizational assignments of responsibility for these two functions.

Most corporate members view the organization's policy advocacy functions as the service in which they are most interested. On the whole, they are quite satisfied with what CAIC is doing in this area. The austerity program which the Association has put into effect has won the approval of corporate members who had previously

been critical of CAIC's spending practices. However, those organizational members who are served by the Local Affiliate Development Program would like CAIC to provide them with more funds and services.

I-2. The interviews carried out by the Evaluation Team indicated that CAIC has an excellent image among its members, the public sector, and in the community at large. At least 80% of the businessmen interviewed (both members and non-members of CAIC) had a knowledge of some CAIC activities and had a general sense that it was "guarding their interests." In comparison with the results of the survey carried out in 1986 for LBII's 1986/87 evaluation of the PSIAP project, the 1989 interviews demonstrated a much higher level of awareness of CAIC and knowledge of its activities.

As a broadly based business organization, CAIC is not able to serve all its members in the ways and to the extent that they might individually wish, but it has a solid base of support for what it does well. The Association appears to respond to criticism from within its ranks and to make constructive changes. Its delivery of services to small and medium sized enterprises and its assistance to institutions supporting microbusinesses has enhanced its reputation and broadened its public support.

While CAIC is still seen as being led by the larger firms in the region, its services to SME and microenterprise constituencies are recognized and appreciated. The most strongly critical comments of CAIC came from some Chambers of Commerce whose staffs saw some of CAIC's activities as competition or intrusion at the national level. However, even those Chambers which regard CAIC as a local competitor acknowledged the importance of CAIC's policy advocacy functions at regional and international levels, if not at the national level.

I-3. CAIC has made very great strides in improving its internal management systems, particularly its financial controls and financial reporting. It has reduced its staff and made cost-savings on rent and other items. It is now a leaner and more cost-effective institution. It has made some progress toward financial self-sufficiency, but it remains to be seen whether the current membership drive can produce sufficient revenues to achieve the small surplus projected in CAIC's budget for the current year. A computerized SEA project monitoring system has been put in place, but the data base was not up to date at the time the Evaluation Team carried out its field studies. The time lag appears to be attributable to (1) staff overload; (2) a requirement for more editing and revision of data received from the field than would normally be expected; and (3) more involvement of senior professional personnel in the editing and revision process than would normally be expected. These problems should be addressed as additional staff resources and capabilities become available.

I-4. CAIC's Regional Coordinating Unit (RCU) has reached its SME constituency by utilizing the skills of its own staff, by using delivery organizations such as the International Executive Service Corps, and by working through National Delivery Institutions (NDIs) located in each country. The original project design properly premised that most of the SEA Project's services to SMEs would be delivered through national institutions. However, such delivery was not possible in most territories until unrealistic conditions precedent requiring the establishment of National Coordinating Committees were removed in 1988. Since these restrictions were removed, NDIs have been selected in each country and service delivery has been speeded up. Judging from its early performance, the NDI structure is an appropriate and effective choice as the main channel for service delivery. However, staff capabilities at both the RCU level and in the NDIs should be enhanced as the volume of activity expands. Further delegation of authority to the national level also will be required.

CAIC-Specific

II-1. CAIC's present committee structure reflects the substantial influence of the Mission at a time when institutional development objectives dominated RDO/C's thinking about its private sector strategy in the region. That influence resulted in the creation of one very useful and effective new committee, the SEA Policy Committee, but it also produced more new committees than CAIC could effectively staff and support. However generous their intentions, Caribbean businessmen have limited time to spend on business association affairs, and usually prefer to spend their time on committees that have tangible influence, resources, and staff support. The policy committees for the Caribbean and for the OECS turned out not to have these attributes, and were essentially still-born. Current de facto arrangements for policy consideration by CAIC Board Committees appear satisfactory.

II-2. CAIC should now review its committee structure with a view to eliminating moribund committees and formally transferring their key functions to the more active committees with appropriate regional perspectives. It should consider eliminating the Caribbean-Wide Development Committee (any important functions can be formally transferred to the Executive Committee) and the OECS Development Sub-Committee (any important functions can be formally transferred to the CAIC/SEAP Policy Committee.)

II-3. CAIC is viewed by the public sector and the public at large in the Caribbean as a knowledgeable and responsible advocate of private sector viewpoints. Each one of the public officials interviewed by the Evaluation Team articulated positive views of CAIC's presence and image. CAIC has had continuing access to the public sector in the highest levels of Government and in regional institutions. CAIC's activities generally have had favorable

coverage in the media, although the organization's own communications program has been a subject of some considerable internal criticism. A recent assessment carried out on behalf of CAIC identified significant improvements which could be made in the cost-effectiveness of its own communications activities. CAIC has responded affirmatively to this assessment and is making needed changes.

II-4. Businessmen in the Eastern Caribbean regard CAIC as important to them because it often has freer access to governments than other private sector organizations, and because it is the only channel through which the private sector in the region can be effectively represented in regional and extra-regional trade negotiations. CAIC is often seen by businessmen as a supplement to -- and occasionally as a substitute for or alternative to -- involvement with their national level business organizations. In Grenada, a committee of businessmen (both CAIC members and non-members) reported to evaluators that CAIC had assisted them immeasurably in both policy analysis and policy advocacy during times of political turbulence. They were of the view that CAIC was in a unique position to assist the Government in resolving problems posed by a current split in leadership. In Trinidad, the view was expressed that a national umbrella organization for business associations was not required in that country because CAIC was able to perform any needed integrating functions which could not be worked out locally from a distance. In at least one case, a business person who had become alienated from his local business association saw CAIC membership as an alternative form of participation in business community activities.

The SEA Project has helped to soften the impression that CAIC's primary interest is in the region's large firms. The SEA project's practical assistance in improving SME business performance received high praise, along with CAIC's assistance in obtaining desired policy changes.

II-5. CAIC's internal management has been vastly improved as a result of the appointment of a Deputy Executive Director and a Financial Controller, and movement toward the objective of separating "baseline" (traditional business association) functions from development functions. Financial reporting, budgeting, and cost control systems are now in place. In view of the likelihood that resources will be reduced for some elements of its program (particularly NDF/WID funding and LADP), CAIC should review its monitoring systems with a view to regularly obtaining the best possible information pertinent to actual and prospective impacts of funding reductions on recipient institutions. CAIC should monitor arrearages and bad loan rates for NDF/WID loans specifically financed by A.I.D. funds as a matter of good practice. The talents of the personnel of the Finance Department in systems and financial analysis could be utilized to contribute to improvements

in the monitoring system to better measure changes in financial conditions and strategies of its implementing institutions.

II-6. CAIC has followed three basic strategies to improve its viability: cutting costs, increasing revenues from membership dues, and increasing income from services. Although it has made progress in each of these areas, it is not yet certain whether the measures taken thus far will close the gap. CAIC may be able to effect further savings -- or derive further income -- from the premises which it rents. It is conceivable that CAIC's new Jamaican President can help to expand the Association's membership in that country. Apart from deriving more income from dues and the services which it presently renders, any substantial new money-making venture undertaken by CAIC is likely to present downside costs and risks as well as upside benefits and opportunities.

One area worth consideration is that of providing services in the area of computers and computerization. There is a substantial market for the services of organizations and individuals who are skilled in providing computer services. CAIC has a potential threshold position deriving from (1) its successful computerization of its own finance functions; (2) computer networking activities envisioned as part of its export promotion project; (3) its involvement in computer familiarization training; and (4) its project monitoring system. With firm and imaginative leadership, CAIC might turn a threshold position into a money-earning asset.

Small and Medium Enterprise Assistance

III-1. RCU's overhead costs may be defined as the sum of four line items in the original project budget: (1) Regional Coordinator operating costs; (2) National Coordinator operating costs; (3) management support to the Regional Coordinator; and (4) project monitoring, audit, and evaluation. The relationship of these costs to program costs (monies moved to NDFs/WID and spent on SME interventions) defines a simple project overhead rate. The overhead/program cost relationships contained in the financial plan of the 1986 Project paper compare with actual results as follows:

	<u>1986</u>	<u>1987</u>	<u>1988</u>
Original Financial Plan	36.08%	40.75%	54.94%
Actual Expenditures	17.99%	21.94%	26.42%

Among the factors responsible for the much lower-than-expected overhead rates were (1) relatively tight cost control; (2) lower-than-projected staff costs; (3) expanded funding for the NDF/WID program; (4) delays in the start-up of the SME program; and (5) elimination of some costs of national administration when the National Coordinating Committee (NCC) idea was dropped from the program. The budget contained in the original project design apparently envisioned that RCU would expend substantial resources

on sustainability issues and would achieve closure on such issues. While RCU certainly has been active in this area, it may well have committed fewer resources and made less progress than the project designers had projected.

During the first three years of the project, RCU effectiveness was adversely affected by the conditions precedent requiring the formation of NCCs prior to undertaking national-level operations. Performance also was affected by the multiple responsibilities of the Regional Coordinator who doubled as CAIC's Deputy Executive Director for nine months. As the requirements of the SME program have mounted, it seems clear that RCU is understaffed. RCU should bring on board the second project officer envisioned for the unit in the project design. RCU's operating procedures are satisfactory, but the personnel of the unit would benefit from training in project management.

The project has had a favorable impact on local and regional supporting services for SMEs. That favorable impact is likely to increase as the SME program gathers momentum. In the past, SME's have lacked networks that are friendly to them and supportive of them. Because of the absence of prior assistance, the changes wrought by the project are highly visible and well-appreciated by recipients. The creation and use of a list of approved consultants, most of them local, who have been able to provide quality services to SME firms is in itself a significant step forward -- as is the designation and activation of NDI's.

The growing list of SEAP interventions carried out by regional professionals in combination with favorable reports by recipients suggests an expanded capacity to apply their skills to this target group. The Evaluation Team found evidence of positive results following interventions and the generation of financial returns that could be used for direct purchases of local supporting services in the future. However, it should be clearly understood that what SEAP has established is a fledgling service network. If RDO/C assistance were to cease in the near future, it is doubtful that the favorable impact on local and regional supporting services would be long sustained.

The Evaluation Team's field visits also showed that there have been beneficial social and psychological gains as well as favorable economic impacts in terms of exports and employment opportunities from the SME component of SEAP. With a few exceptions, the interventions were directed to firms who would otherwise have had great difficulty paying for the technical assistance on their own. However, a number of them -- as a direct consequence of the initial help -- probably could afford to pay for such assistance now.

Businesses assisted by SEA expanded sales, exports and employment. For example, in St. Lucia, a firm whose operations had been a net consumer of foreign exchange (assembling imported electronic

components into kits sold in the domestic market) was transformed into a much more profitable export operation with SEAP funded training in circuit board assembly. The circuit board business employs almost five times as many people as the original kit assembly operation, and all of the company's products are now exported.

In Dominica, the Leather Goods Cooperative received SEAP technical assistance as well as a working capital loan from the Dominica Working Capital Fund. This cooperative has managed to expand its markets both in and out of Dominica while keeping many craftsmen employed who otherwise might have lost income.

In Grenada, SEAP trained two employees of a bottled gas plant. The resulting increase in gas quality brought in new customers and expanded sales.

In St. Kitts, SEA training helped a bookstore owner modernize her physical layout and create more eye-catching displays. Sales increased.

In St. Vincent, SEA assistance helped a pasta manufacturer find export markets in Dominica.

SEA also has been active in helping business firms in the printing, furniture, apparel, and agribusinesses on several islands.

For the most part, the SEAP assistance has been directed to firms and business-people who have been considered as outsiders by the Caribbean business elite. As these businesses have expanded and become more profitable, SEAP has helped to change the attitudes of small businessmen towards their own destinies. In the process, their attitudes toward CAIC and their local business associations has changed. The availability of good business advice has ameliorated the sense that class and ethnic distinctions serve as serious barriers to business success in the Eastern Caribbean. Because putting a structure of support services for SMEs in place has improved recipients performance and it has energized entrepreneurial motivation, it has started to create its own market.

III-2. Most recipients of technical assistance and training expressed satisfaction with the quality and outcomes of the assistance provided to them. Most also said that they would not normally have been in a position to avail themselves of such assistance in the absence of the SEA program. Probably the most beneficial interventions have been the in-plant consultancies and training workshops which have provided "hands on" training and advice to company staff in the application of simple technologies. Strategic business planning assistance has focused on helping entrepreneurs to think about the future of the enterprises and to prepare business plans. Assistance in product-line pricing strategies, an area in which Caribbean manufacturers have been

notably deficient in the past, is one to which SEAP should devote attention in the future.

III-3. CAIC's selection of National Delivery Institutions has been based on criteria which combine considerations of organizational competence and representativeness among types of Caribbean business institutions. The group is made up of four Chambers of Commerce and Industry (Dominica, Grenada, St. Kitts and St. Vincent), one Manufacturers Association (St. Lucia) two NDFs (Antigua and Montserrat, the latter is also a credit union) and the RCU itself (Barbados). The selections seem appropriate and appear to have been well accepted. NDI staffs all will need assistance and/or training as the SME program gathers momentum.

III-4. The pace of delivery of SME assistance has speeded up since the National Delivery Institutions started their activities in 1988. It is quite apparent, however, that (1) the SEA program functions are taking more of the time of NDI personnel than originally envisioned and (2) NDI personnel require training in carrying out their new functions. The NDI's appear to operate most effectively where, as in Grenada, they have an active outreach program or where, as in St. Lucia the NDI is closely identified with an SME constituency. The original SEA Project design budgeted substantially more funds for national level operations than has been spent to date, mainly for the now-defunct National Coordinating Committees. As the pace of delivery of services to SMEs accelerates, it is important that the NDIs acquire or be provided with access to the substantive skills and knowledge needed to carry out diagnostic, intervention packaging, and monitoring tasks.

III-5. The Dominica Working Capital Fund is an innovative program which was undertaken in September 1988 to provide working capital loans to firms unable to secure such financing from commercial banks. The program was undertaken at a time when local banks were highly liquid and thus more lenient than is normally the case. Thus the pilot program in Dominica has moved more slowly than anticipated. Only three loans has been made at the time the Evaluation Team conducted its field study.

One expectation of the fund designers was that the loans would have lower overhead costs per dollar than do NDF loans because less technical assistance would be required. On the basis of the limited evidence presently available, it is conceivable that the loans actually made will not result in higher net margins than those of conventional NDF loans. However, it is also possible that the program will turn out to have characteristics that would justify its replication elsewhere in the OECS.

The administration of the DWCF by the National Development Foundation of Dominica already demonstrates a high degree of professionalism despite the short length of time the fund has been

in operation. The apparently high overhead costs per dollar probably can be reduced over time through measures which include:

- focusing lending on graduated NDFD clients with established track records; and
- charging interest premiums to clients with less impressive track records to take account of risk as a commercial bank would. The NDFD already has detailed credit histories for its microbusiness graduates.

The program appears to be quite useful and its clients highly enthusiastic. It has helped exporters and productive investors, and that is quite desirable from a macroeconomic point of view. The National Development Foundation of Dominica is quite capable of running the program at its existing or at an expanded level.

Two of the three loans had the anticipated pay-back period of six months. One, which had actually been arranged before the program took effect and was then "grandfathered," had a longer term. Ultimately, it may be desirable to move to "line-of-credit" or "overdraft" facilities, but the costs of such services would have to be carefully considered before any such changes are made. Until a clear case to the contrary is made, the six months pay back period should be retained.

Since the Dominica Working Capital Fund has been in operation for only a short time and the Scope of Work for this evaluation does not include the question of whether the program should be extended to other countries, we did not examine DWCF's experience thus far with the objective of recommending whether or not the program should be replicated elsewhere at this time. We believe that the originally scheduled mid-term review should be carried out to establish the basis for any decisions required in the near future. A description and analysis of the specific plan for expansion under consideration should be part of the basis of an informed decision.

III-6. RCU has supported four marketing research and training programs attended by 17 entrepreneurs engaged in agri-processing, crafts, furniture, footwear, printing and other fields. The program consists of two days of theory and two days of practical application. These programs have been successful to the extent that some participants complained that they received more leads and opportunities for orders than they could possibly handle. The approach taken deserves replication. However, it is particularly important that the NDIs develop sufficient diagnostic capabilities such that they do not select SMEs for training and technical assistance in markets that they are not ready to enter. It is also important that technical assistance be packaged in a fashion that provides recipients with follow-on assistance in production, quality

control, or other areas important to exploiting marketing opportunities.

III-7. Although Women-in-development objectives and targets were not included in the project design, a review of achievements in this area nevertheless was incorporated in the Scope of Work for the present evaluation. CAIC data show that woman-owned businesses represented about 43% of a combined total of 593 training and technical assistance interventions. Participation rates by women in particular types of activities varied widely. Women represented 100% of the recipients of assistance in the field of interior decorating and 50% of trade show attendees. In the areas of the technical assistance in marketing, production, quality control and operation of equipment--women represented over 35% of the participants. In management (35% participation) and maintenance of equipment (30%) men received the predominant amount of the technical assistance.

Virtually all of CAIC's affiliate and corporate members are controlled and managed by men. However, women make up 66.67% of the NDF/WID staff, 71.43% of the NDI staff, and 57.14% of the RCU staff of CAIC as reported by CAIC.

Available data on NDF loan recipients show that women recipients ranged from a high of 96% of the loans extended by W.I.D. Limited (Barbados) to a low of 16% loans made to women in Montserrat. For the eight NDFs (excluding W.I.D. Limited), 35% of the loans went to women. Apart from WID, all other NDFs' loans to women were under 50% of total loans disbursed. The average principal amount of loans to men was higher than for women for most countries and most years. W.I.D. Limited has made an effort in recent years to include men in its lending portfolio.

The Evaluation Team did not find evidence of discrimination in loan processing. Decisions on loan applications appear to have been made on their merits.

RECOMMENDATIONS WITH RESPECT TO THE PROJECT'S FUTURE

Our assessment of the SEA Project and of CAIC is quite favorable. Nevertheless the future is bearing down on the SEA Project with considerable velocity and threatening to bring serious problems in its wake. These problems center on (1) a potential SEA Project budget overrun of considerable size; (2) sustainability issues affecting each of the CAIC functions presently being funded by AID; and (3) RDO/C's long-term relationship with CAIC as an implementation organization. We believe that these issues deserve attention soon. Accordingly, at the risk of going well beyond our mandate and the subject matter we have analyzed, we offer the following opinions.

1. RDO/C should add sufficient funds to the project budget to enable the SME program to reach its original targets by its PACD. If the performance of the SME program continues to be satisfactory, RDO/C should consider extending the program well beyond its current PACD.

Total spending on the SEA Project has lagged well behind the original financial plan, but we believe that the underlying dynamics of the SEA Project are rapidly pushing it toward a prospective overrun on the order of \$1.8 million. The project already has exceeded its targets for micro-enterprises but it is unlikely to come close to the targets established for Small and Medium Enterprises (SMEs) before current project funds are exhausted.

SME interventions have been generally quite successful in harnessing the energies and increasing the competence of an aggressive and adaptable rising class of business entrepreneurs. SEA has demonstrated that it can help these entrepreneurs create jobs, expand exports, and increase productivity. Prospects that the region can finally overcome its chronic dependence on outside assistance may well hinge on the performance of the SME target group which the SEA Project has been able to galvanize. It is recommended that USAID add funds to the project so that at the very least the original SME targets can be achieved. At the present pace the project will run out of resources before PACD and before the SME targets are achieved. Funding beyond the originally targeted SMEs should also be considered if these interventions continue to be successful.

2. RDO/C and CAIC should consider recovering a larger proportion of the costs of assistance from SMEs by means of loan financing.

At present, 75% of SEAP technical assistance is being underwritten in the form of grants. Many of the SMEs can afford all, or a larger portion of, the full cost of assistance but do have short term cash flow problems. The SEAP contribution for these SMEs should be in the form of loans. To avoid additional paperwork at the RCU or in non-financial NDIs, the loans might be administered through a special window in the development foundations, similar to that used by the Dominica Working Capital Fund.

3. CAIC and RDO/C should reach agreement on strategies for moving toward sustainability of each of the seven functions which RDO/C is presently supporting through the SEA Project.

Project Paper Amendment No. 1 (1987) took a significant step forward by addressing issues of sustainability and self-sufficiency concerning CAIC "core functions" in a direct and comprehensive way. But the financial analysis which it contained had three limitations. First, it did not clearly distinguish among the three

types of functions within the "core function" basket: business association "baseline" functions, development functions, and support of administrative positions needed for compliance with AID requirements. Second, it assumed a cut-off of AID funds in 1991 which in fact may not be in accord with RDO/C's best interests. Third, it treated the sustainability issue as though it were a ball in the court of CAIC, rather than a form of "cooperation game" requiring a common strategy for the most effective solution. Recognizing that RDO/C may not be able to make binding commitments for the future, they nevertheless should develop a consensus on realistic strategies for dealing with RDO/C support for each of the following:

- a. Membership Development
- b. Local Affiliate Development
- c. Policy Advocacy
- d. Training
- e. NDF/WID Program
- f. SME Program
- g. Administration

Our recommendations with respect to the SME program are set forth above. We set forth below some suggested approaches to issues of budgeting and sustainability as they affect other functions and CAIC's role as an implementing organization. Conceivably these suggestions could be used as an agenda for discussions between RDO/C and CAIC on strategies for the future.

4. We regard membership development as a candidate for early graduation from AID funding. We suggest that any new RDO/C funding should be in the form of "challenge grants" which compensate CAIC only to the extent that it raises more membership funds on a cash basis than it has in prior years.

In 1980, CAIC's revitalization manifesto "Creating the Future" described an organization which would: "in a period of four years eliminate the need for grants .. and permit the Association to be adequately financed on a self-sustaining budget." While it may not be in the interest of either CAIC or RDO/C for CAIC to eliminate grant funding of development functions in the near future, both organizations can benefit from a policy which mandates that CAIC must cover the costs of its baseline functions from dues. If RDO/C wishes to give further assistance in the area of membership development, we suggest that it take the form of a grant which matches increases in amounts of dues collected over the previous year up to an established maximum. That approach requires improved CAIC fund raising performance, and still permits RDO/C to designate the purposes for which the funds it provides are to be used. If CAIC can not meet its current baseline costs on a regular basis, its "market" will have spoken, and it should cut them back.

5. We also regard local affiliate development as a candidate for early graduation from AID funding. If RDO/C wishes to provide additional funding, it likewise should take the form of "challenge grants."

The Local Affiliate Development Program has shown a mixed performance over the years. As a subsidy program for national business associations, LADP does not provide effective incentives for self-sufficiency. There does not appear to be a long-term plan for shifting the costs of LADP from AID funding to the CAIC membership at large.

Roughly one fifth of the funds devoted to LADP have been expended on activities within the "human resource development" category. A case for continuing such activities can be made on grounds other than local affiliate development alone. A case also can be made for the continued development of those CAIC affiliates which serve as NDIs for the SEA program. However, given the socio-economic characteristics of most affiliate members, we find no persuasive rationale for continuing the remainder of this program beyond PACD.

The program binds local affiliates to CAIC to some degree, but it also leads to some ill-will concerning the sizes of local affiliates' subsidies and the extent of CAIC services provided. "Challenge grants" conditioned on increases in the levels of support which affiliate members provide to their own organizations, could be used to bring this program to a conclusion on a positive note. However, given multiple demands on limited RDO/C resources, we basically agree with the position taken in the Project Paper Amendment: CAIC's Affiliates should become self-sustaining by PACD. LADP should be subjected to the test of its marketplace.

6. Policy advocacy is a business association baseline function requiring expertise which RDO/C may wish to utilize from time to time. We suggest that RDO/C graduate this function from long-term funding at PACD, or fund it through "challenge grants". The costs of time spent by the Executive Director on AID-mandated development or policy reform activities, including full overheads, should be compensated on a case-by-case basis.

There is considerable overlap between CAIC's objectives and U.S. objectives as a business association in the region, and it can be argued that assistance to CAIC's policy advocacy activities is more cost-effective than other RDO/C approaches to policy reform in the region. But it should be recognized that the involvement of the Executive Director (CAIC's chief advocate) in development CAIC's development activities can serve AID's interests. Clearly the Executive Director's skills can be critical in the effort to attract funds from other development agencies to sustain functions which were started with AID funding. From the viewpoint of attaining self-sufficiency in baseline functions, however, it would be best

for CAIC to rely on its members to underwrite the full costs of policy advocacy activities undertaken on their behalf, and for RDO/C to pay full cost for what it wants and needs when the Executive Director's high-impact services are required.

7. Training is an area in which the CAIC staff has shown considerable competence and in which RDO/C has important interests. CAIC projections show rising revenues and close to break-even performance in the reasonably near future. Achieving viability within the CAIC matrix or as a separate CAIC subsidiary will involve some significant changes on the part of the unit. Making those changes will require help from RDO/C.

The Training Department has shown growing if modest revenues. Nevertheless, its services require subsidy in almost every case, despite the fact that it serves some commercial clients. CAIC's training unit is heavily oriented toward development assignments and is fundamentally dependent on development money. Under the right conditions, we believe that the region could support a service entity in the training field. The most fundamental requirement is that development agencies, RDO/C among them, be prepared to pay full overheads, including the costs of seeking new business elsewhere. As long as development agencies periodically subsidize the costs of training supplied to most Caribbean businesses, it will be very difficult to convince these businessmen to pay full costs. As long as development agencies prefer grant funding of organizational units to paying overheads for services rendered, sustainability apart from them will be very hard to achieve. However, an independent training unit could be created and sustained with the understanding and support of the donor community. Ideally, a study of training requirements throughout the region and agreement on a strategy for meeting these requirements through a variety of services suppliers should be a predicate to such a plan.

8. It is virtually certain the NDF/WID Program cannot become financially self-sufficient in its present form although it could sustain itself with the assistance of a number of donors. If the NDFs are not to become heavily and chronically dependent on RDO/C, a realistic strategy for declining funding is required. RDO/C should consider shifting its funding of NDF/WID loans from a grant to a concessional loan basis.

As long as NDFs/WID are structured to provide loans and technical assistance to microenterprise clients whose financial requirements are otherwise unbankable, they are unlikely to be able to cover their administrative costs from their own revenues. The reasons are (1) the bankability criterion means that their best clients eventually become clients of the commercial banks, and (2) the high cost of loan officer technical assistance needed to make sure that the microbusinesses do not fail. Default and delinquency rates

rise without this type of intervention. USAID and other donors will need to continue to support at least the TA component of the development foundations expenses for the foreseeable future.

It is conceivable that the availability of RDO/C grant funding for loans has encouraged some NDFs to expand loan volume and lower loan quality. If AID were to convert its loan funding to a concessional loan basis at rates slightly above the concessional rates of other development lenders, a desirable diversification of funding could occur along with additional incentives for maintenance of the quality of the loan portfolio.

RDO/C's total funding of NDFs/WID doubled between 1986 and 1987, and rose slightly from 1987 to 1988. The NDF/WID program is a meritorious one which is well-regarded in most of the Eastern Caribbean countries in which it operates. Sooner or later, the Mission will have to make a decision about whether it actually wishes to reduce the resources it supplies to one of its most popular and successful projects. If RDO/C is serious about reducing the dependence of the microenterprise organizations on its funding, the Mission should develop, discuss and apply a fair and realistic strategy for achieving this result. Given recent history, it is hard to conceive that AID would not continue some NDF/WID funding beyond 1990. A reasonable approach beyond 1990 would be to limit such funding to support of administrative costs.

9. RDO/C's support of improved CAIC administration and organization functions principally serves RDO/C's interests in effective compliance with AID regulations and requirements. Extensive administrative capacities are not required by other donors and would not be sustained by CAIC's membership in the absence of support from development funding. RDO/C should plan to sustain a suitable level of administrative support at CAIC as long as RDO/C implements large development programs through the Association. Both organizations would benefit if each were to take a long view of its relationship with the other.

The progress of CAIC in improving its handling of AID regulations and requirements has been outstanding, as has the adjustment of the CAIC organization to its dual baseline and development functions. The long term interests of both organizations can best be served by building on the progress that has been made thus far.

CAIC has achieved the position of a respected voice in the region. It's present goal is to consolidate that position. It's role as an executing agency for various USAID and other development programs supports its objectives. In its execution of the SEA project, CAIC has shown a blend of flexibility and practicality which would be useful in the execution of other projects. While care should be taken not to overload the organization or divert it from

it's fundamental role as the spokesman for the regional private sector, we believe that the Association can and should evolve in a way that permits it to take on more development projects. The main desiderata are:

- (i) A structure which, insofar as practical, separates responsibility for the execution of projects funded by development agencies from responsibility for CAIC's baseline functions as a business association.
- (ii) Fully allocated overhead costs to any new projects to allow the organization to tool up for the additional projects.
- (iii) A staff that is fully trained especially in the area of project management.

In our view, these three desirable elements are well within CAIC's present reach.

CHAPTER I

INTRODUCTION

A. REPORT OVERVIEW

This evaluation report consists of seven chapters. The present chapter (Chapter I) first describes the SEA project and the scope and methodology of this evaluation. It then provides a brief history of CAIC and the SEA Project in the context of the region's history.

Chapter II discusses the financial performance of CAIC. This Chapter analyzes SEA Project budgets and performance and provides an overview and analysis of CAIC's financial performance examining self-sustainability scenarios and issues. The Chapter also reviews the cost-effectiveness of the SEA Project service delivery element. Finally, it provides a summary assessment which raises fundamental questions which could lead to a long-term financial strategy for RDO/C and CAIC.

Chapter III provides a description of the institutional structure and organization of the Caribbean Association of Industry and Commerce (CAIC) as it has developed to meet the needs of its members, and analyzes the effectiveness of the present structure. This chapter also presents the Evaluation Team's findings regarding perceptions of CAIC in the regional private sector and CAIC's role as a development project implementation organization.

Chapter IV examines CAIC's role in policy advocacy. It first explores the importance of policy advocacy as a CAIC function and CAIC's role within the region. It then briefly reviews the positions CAIC has taken and methods it has used to assert its views with respect to Caribbean regional and trade policy issues, national policy issues, and extra-regional market access. The chapter closes with a summary assessment.

Chapter V describes the organization and functions of the Small Enterprise Assistance Project, including project coordination and service delivery systems. This chapter specifically addresses the SEA Project's technical assistance, training and credit components and their impacts on small and medium businesses and microenterprises. The Evaluation Team also assessed the success of the pilot Dominica Working Capital Development Fund. Finally, Chapter V provides conclusions and recommendations for more effective implementation of the project.

Chapter VI discusses Women in Development issues in the SEA Project, including special project assistance to women, the impact of the Project on jobs for women, and the addressing of particular technical assistance, training and credit needs of women-owned businesses in the Caribbean. This chapter also discusses W.I.D. Limited of Barbados, and its relationship to the CAIC organization and the SEA Project.

Chapter VII summarizes the recommendations of this evaluation.

Appendix A to this report contains the Statement of Work for the evaluation.

Appendix B lists the members of the evaluation team, their fields of expertise, and the role that each member played in the evaluation.

Appendix C provides the Project Logical Framework and sets forth achievements to date.

Appendix D reproduces the detailed financial models of four alternative scenarios described and analyzed in the Project Paper Amendment and discussed in Chapter II of this report.

Appendix E sets forth CAIC's projection of revenues and costs and its anticipated financial performance.

B. THE PROJECT

1. Project Components, Antecedents, and Constituencies

The Small Enterprise Assistance (SEA) Project has two main components and three principal target groups or constituencies. SEAP consists of a "CAIC core component" and an "SME/NDF component". The SME/NDF component accounts for the larger amount of the project funding. That component, undertaken in February, 1986, has given the project its name (Small Enterprise Assistance) and its number (Project No. 538-0133). The "CAIC core component," in fact, is of much earlier origin (1981), and was merged into the SEA project by amendment in 1987. The core component had a separate project identity as the Private Sector Investment Assistance Project (PSIAP, Project No. 538-0043) during the period from 1981 until the merger in 1987.

At the risk of some oversimplification, it may be said that the merged project serves three distinct Caribbean business constituencies: (1) relatively large regional businesses, most of them headquartered in Barbados, Trinidad, and Jamaica; (2) medium and small firms mostly located in the OECS States and Barbados; and (3)

microenterprises mostly located in the OECS States and in Barbados. There are of course other ways of describing or classifying Caribbean business communities on the basis of distinctions concerning owner/managers; gender or ethnic group; trading or manufacturing orientation; associations with industrial, commercial, and agricultural sectors; foreign, regional, and national ownership and/or principal sources of supply and markets. However, from the viewpoint of the business association dynamics with which the SEA project is concerned, most of these more elaborate descriptions lead back to a three-fold classification of Caribbean businesses.

The "core elements" which the SEA project acquired from PSIAP by merger in 1987 were aimed mainly at revitalizing and sustaining an organization which looked for leadership to the larger Caribbean regional firms. PSIAP funds defrayed some of CAIC's costs of membership expansion programs, studies used for policy advocacy in national and regional fora, training and technical assistance for selected firms, an information network used for sharing export and investment opportunities, assistance to national and sub-regional business institutions, as well in building the membership of the organization itself. While PSIAP served some firms that were medium-sized by Caribbean standards (and small by those used in the United States), the project was, in the pre-SEA years, primarily identified with a program of enlightened business leadership supported by the larger firms in the Caribbean.

The original SEA project (before the merger with PSIAP) sought to combine a new focus on the needs of small and medium-sized firms in the region with a continuation of RDO/C assistance to micro-businesses through National Development Foundations (NDFs) in the OECS countries and through Women in Development, Inc. (WID) in Barbados. RDO/C's assistance to the NDFs previously had been funnelled through the Dominica Small Enterprise Development Project (Project Number 538-0079) and the National Development Foundation Assistance Project (Project Number 538-0136). The SEA project also sought to achieve closer collaboration among the various elements of the business communities in the OECS countries.

The allocation of financial resources between the needs of micro-businesses, on the one hand, and those of Small and Medium-sized enterprises on the other, was an important concern in the design of the original SEA project as it ultimately is in the present evaluation. At the time of the merger, issues of the sustainability of CAIC, of the NDFs and of SEA's new services for SMEs were intermingled. These issues affect all three of CAIC's constituencies under the merged project.

RDO/C's private sector program focusses on the lesser developed countries who are members of the Organization of Eastern Caribbean States. SEA funding, which has accounted for a substantial portion of CAIC revenues, is largely oriented toward the Eastern Caribbean

LDCs. However, the largest portion of CAIC's membership dues and several key members of its Board come from MDCs. Most of CAIC's larger firms are headquartered in Barbados, Trinidad, or Jamaica, and these firms in turn are those most vitally interested in CAIC's policy advocacy functions. The main thrust toward regional integration and toward liberalized international trade practices comes from these larger firms.

2. The 1986 SEA Project Paper

a. The Original SEA Project in Brief

As described in its original SEA Project Paper (February, 1986), the project was to provide technical, managerial, marketing, and financial assistance in seven OECS states and Barbados. CAIC was to establish a Regional Coordinating Unit (RCU), a distinct organizational unit within the Association's structure, to administer the project. The RCU was to make sub-grants to national private sector entities which were to be responsible for the actual delivery of services. For delivery to micro-enterprises, sub-grants were to be made to the National Development Foundations established in six of the territories and to W.I.D. Limited of Barbados. For delivery of assistance to small and medium-scale enterprises, sub-grants were to be made to national private sector entities constituting the National Coordinating Committees (NCCs) in each OECS territory. NCCs were to be representative of all individuals and organizations with a legitimate claim on project resources. They were to be responsible for identifying needs for SEA technical assistance, training, and financing.

b. Target Groups

The Project Paper starts with a fourfold classification of businesses: micro, small, medium, and large, but it then lumps microenterprises with small enterprises in a definition of "small" (under 10 employees, under U.S. \$35,000 in sales, and under U.S.\$15,000 in assets), indicating that there is a continuum between micro and small enterprises. "Medium" enterprises have 10 to 50 employees, U.S. \$35,000 to \$250,000 in sales, and up to \$75,000 in assets.¹ Later, the paper draws a distinction between micro and small enterprises. It states:

Most of the microenterprises are by their very nature not primarily commercial entities. They tend to engage in subsistence activities as an extension of the house-

¹ Small Enterprise Assistance Project Paper (February, 1986), p. 14. Small (including micro) and medium enterprises account for 25% of the region's Gross Domestic Product and half of the labor force.

hold. The benefits of the microenterprises therefore accrue directly to the household in the form of an increase in the household's real income. Incremental employment or linkage effects for this group will be much smaller than for SMEs... For SME's, benefits will be manifested in the form of lowered costs, increased sales, or both. Increase in gross profit therefore becomes a proxy measure of project benefits to SMEs.

Precise definitions aside, it seems quite clear that the designers of the SEA project believed they were doing two things: (1) consolidating, and providing a single administrative vehicle for, an "old" RDO/C activity (assistance to the region's National Development Foundations), and (2) launching a "new" program aimed at small and medium-sized firms (SME's) not served by the NDFs. The NDFs are principally identified with microbusinesses but in fact do include some commercially oriented small businesses in their clientele. Nevertheless, when the Project Paper uses the term "SME" it usually refers to the new technical assistance, training, and financing functions and funding, as distinguished from the functions and funding of the NDFs.

Of the two segments of the original SEA project, the SME element was the one which was to blaze a new trail. The innovation lay not only in delivery of RDO/C-financed assistance to a different stratum of the Caribbean private sector, but also in attempting to unify various elements of the private sector through the creation of a new kind of delivery mechanism.

The vehicles for unification were to be National Coordinating Committees (NCCs) established in each of the OECS territories served by SEA. The NCCs were to be representative of the national business community, determine SME needs, formulate annual Work Plans, and allocate SME resources. Day-to-day implementation of activities at the national level were to be carried out by a single National Coordinator, which could be a particular organization (such an NDF or a Chamber) or a new, separate office. The SME channel of assistance was to be coordinated from Bridgetown, but the system was to have decentralized, "bottom-up" characteristics as well as regional, "top down" features. Interaction among representatives of various segments of the business community at the national level would strengthen the "linkages" within the business community. Democratizing dynamics at the grass roots were to percolate up to CAIC, broadening its representativeness as an umbrella organization and strengthening its accountability to the larger business community.

c. Unification of the Business Community

The theme of unification of the business community runs throughout the 1986 Project Paper. At least ten different ideas -- often

loosely related to each other, but nevertheless reflecting the theme of unification in one way or another -- are articulated or implied in the text of the Project Paper. These include:

- (1) "Graduating" businesses assisted into higher and more self-sufficient categories (from micro to small, from small to medium, from medium to large) to achieve a form of institutional upward mobility.
- (2) Linking enterprises in the same or different business categories, through subcontracting and other forms of business transactions, using stronger firms to help weaker ones.
- (3) Forging alliances among business associations and their leaders in order to improve public policies affecting business, particularly those policies affecting the smaller categories of businesses.
- (4) Establishing National Coordinating Committees to provide coordination and formal cooperation among private sector organizations and delivery agencies.
- (5) Expanding the membership of business associations by bringing in new members from medium and small businesses who previously have been reluctant to associate with the "elitist" groups perceived by them to dominate these associations.
- (6) Changing the perception of CAIC (through RCU activities) to one of an organization concerned with small and medium-sized firms as well as larger ones.
- (7) Building social stability within the OECs nations by removing constraints to successful self-employment.
- (8) Overcoming class distinctions among businessmen through wider associations and better communications in the pursuit of common goals.
- (9) Offsetting leadership and resource imbalances which put small businesses at a disadvantage in dealing with larger businesses in face-to-face dealings.
- (10) Developing a consensus which reduces problems and complaints concerning which SME recipients are selected, how resources are allocated, and how services are priced.

It is noteworthy that neither the goal nor the purpose presented in the SEA Project LogFrame mentions business unity as a primary objective. Instead, they refer to increasing levels of employment,

income, productivity, and economic growth within the region and to increasing the efficiency of individual firms. Taken as a whole, the Project Paper tends to straddle the dichotomy between substantive economic achievement and institutional objectives. Looking backward with the benefit of almost four years' hindsight, the original LogFrame objectives appear much more sharply focussed than does the institutional discussion in the 1986 Project Paper.

Among the variety of approaches to "unity" intertwined in the Project Paper, one can discern an amalgamation of two themes, perhaps reflecting a kind of "hard/soft" dichotomy within the Mission. One line of thought, which focusses on the production and efficiency objectives contained in the LogFrame, appears to define "unity" as the result of effective delivery of funds and services to the SME target group. If this could be done well, CAIC and its associated national business institutions would be perceived as seriously interested in the welfare of smaller businesses - able to provide something they need and want.

A second line of thought appears to give primacy to the need to empower organizations and leaders representing smaller businesses, to rectify the resource and social imbalances between them and the larger "establishment" firms which currently supply most of the leadership for national and regional umbrella organizations, and to induce leaders of the larger organizations to represent the interests of the smaller firms in the business community. However, even granting the possibility that the Project Paper represented something of a synthesis of two such positions, the nature of that synthesis is indistinct. Nearly four years after the SEA Project Paper was first drafted, defining the "unity" which its authors then expected to achieve remains something of a Rorschach Test.

3. The 1987 Amendment

a. The Amendment in Brief

The 1987 Project Paper Amendment left the scope and purpose of the SEA project unchanged. It did, however, add another sub-purpose: to strengthen CAIC and its affiliates to enable them to effect policy change and improve their delivery of business-related development services. The Project Paper argued that this subpurpose fit into an evolving Mission private sector strategy:

This longer-term view of development of the private sector, especially the indigenous private sector, places its emphasis on developing institutional mechanisms to improve public sector support for the private sector, improving intra-private sector collaboration, improving dialogue between the public sector and the private sector, and improving the rational use

of business assistance services and their access by the private sector.²

The 1987 amendment merged RDO/C support of six CAIC "core activities" into the SEA project: strengthening of CAIC central administration; policy advocacy; membership development; training; local affiliate development; and export promotion. These activities are described in the amendment as "new."³ While they were certainly "new" to the SEA project, most activities were similar in kind to those supported by RDO/C under the auspices of PSIAP. With the possible exception of export promotion, the Amendment did not introduce generically new kinds of activities.

What was distinctive about the 1987 Amendment, and what set it apart from PSIAP, was that the Amendment demonstrated that RDO/C and CAIC were intent on responding to recommendations for change made in two reviews of progress under the PSIAP project: an audit report conducted by the Regional Inspector General for Audit (RIG) issued at the end of October, 1986 and an evaluation of PSIAP by Louis Berger International, Inc. completed during the first half of 1987. These reviews identified a number of deficiencies in management and administration, financial management, and financial planning.

The Inspector General's audit found that (1) CAIC's controls over project resources and activities needed more intensive monitoring and guidance by AID; (2) accounting and internal controls needed review and improvement; (3) project funds were commingled with other Association monies and were not used as agreed upon by USAID and CAIC; and (4) previously recommended organizational improvements had not been implemented.

The LBII evaluation concluded that the PSIAP project had been a distinct, but qualified, success. CAIC's accomplishments in the areas of policy advocacy, building of formal and informal public/private networks, changing the attitudes of its members, and creating a new image of the private sector in the Caribbean were found to be impressive. On the other hand, CAIC's performance as a development institution received mixed reviews. The evaluation found that, until very recently, neither CAIC nor USAID had faced up to the dilemmas posed by the intermixing of advocacy and development functions in CAIC, the differing geographic priorities of the two functions, and their differing constituencies. It concluded that postponement of direct attention to the underlying problems had contributed to a confused financial strategy and a

² Project Paper Amendment No. 1 (July, 1987). p. 11.

³ Project Paper (Small Enterprise Assistance Project: Amendment No. 1 (July, 1987). p. 1.

troubled administrative style. The evaluation made sixteen recommendations for improvements, which the 1987 Project Paper addressed individually.

b. Financial Planning and Sustainability

The original 1986 Project Paper had contained an order-of-magnitude cost-benefit analysis for the \$10 million SEA project. It did not explicitly take RDO/C financing of CAIC's core functions into consideration. That early analysis examined the benefits of the SEA project essentially as though they resulted from the provision of "public goods." By contrast, the economic and financial analysis in Amendment No. 1 puts forward an "acid test" which treats CAIC core functions more or less like a private good. Applying this "acid test," the benefits generated by the core functions are determined by a "market" consisting of members willing to pay dues and customers willing to pay for training and other services:

The consumers of CAIC's services will ultimately judge the worth of the institutional changes wrought by this project. The acid test of its economic worth will therefore be effective market demand for its services as manifested by the willingness of beneficiaries to pay membership dues and fees for special services or to make voluntary contributions to support CAIC... CAIC's revenues from dues, fees, and gifts will therefore be the measure of benefits.⁴

However, the analysis also recognizes the possibility that this "acid test" of self-sufficiency may be too stringent. The services provided by Amendment No. 1 funding have some of the characteristics of "public goods" in that they may generate positive economic externalities to nonmembers. Revenues from dues and fees would understate social benefits if "free riders" obtained the benefits of changed public policies without paying dues to the organization:

Governments solve the free rider problem through taxation, but voluntary organizations do not have this option. Lacking the power of coercion, such organizations therefore resort to persuasion to acquire funds from outside their memberships or their immediate clientele...

The test of economic viability based on the second model is not the strict "acid test" suggested earlier but rather whether the organization is likely to be able to cover its fees and costs plus voluntary donations from outside organizations (i.e., it will not necessarily be self-sufficient, based on its own revenues, but will be self-sustaining, with

⁴ Project Paper Amendment No. 1 (July, 1987). Annex E pp. 1-2.

the aid of funds from outside sources). In cases such as this, the organization has reached an operating level where the worthiness of its efforts are sufficiently apparent to outsiders that donations and grants can be obtained via the organization's own promotional efforts, much in the way an opera company would generate support beyond ticket sales or that the Red Cross or a PVO would solicit support. In this case, "self-sustainability" means "no longer dependent on AID." The criterion excludes future follow-on AID funding to avoid tautology and self-fulfilling prophecy.).

The Project Paper Amendment's economic/financial analysis laid out four financial scenarios/models to describe alternative futures for CAIC. The analysis concluded that the project is unlikely to result in an institution which would operate at the level achieved during the grant period, but that a "minimalist" institution could be self-sufficient at the end of the project period. It also found that a self-sustaining and somewhat larger-than-minimalist organization was possible if CAIC can find untied external funding to cover general expenses. On the basis of its examination of the scenarios, the analysis concluded that an institution with an annual budget of approximately \$600,000 per year (as compared with a present annual budget in excess of \$1 million) and a staff of five to seven full time employees (well below current staffing levels) probably could attract sufficient members and donor contributions to be viable over the long term.

The four scenarios are discussed in Chapter II of this report. Appendix D reproduces the detailed financial models which represent each of the scenarios.

c. Assessment

The tone of Amendment No. 1 is distinctly tougher than that of the 1986 Project Paper, both in the rigor of its analysis and in its underlying message. The sense that the main concern of the SEA Project is crafting of new socio-political relationships within the business community is noticeably absent from Amendment No 1. Presumably the firmer tone in the Amendment reflects a realization that the amount of resources which RDO/C would have available for its total Mission program was being reduced, as well as a response to criticisms made in audits and evaluations.

The Amendment's presentation of "global budgets" (including all CAIC's sources of funds and all costs as distinguished from RDO/C funding alone) represented a refreshing change from analyses in previous project papers which dealt only with RDO/C's funding of CAIC. The conclusion of the economic/financial analysis that a

⁵ Project Paper Amendment No. 1 (July, 1987), Annex E, p. 3.

self-sustaining CAIC would operate on a smaller scale than it had during a period in which it received substantial untied RDO/C assistance seems eminently reasonable.

Looked at from the viewpoint of the present evaluation, however, the strengths of the Amendment's economic/financial analysis (its willingness to examine the full pattern of CAIC funding in a document directly concerned only with core functions and to cut through complex issues with simplifying assumptions) also gave rise to its two principal weaknesses. First, the analysis skirted the underlying policy issues at stake in RDO/C's support of CAIC's policy advocacy and membership functions. Second, it did not examine the long term implications for RDO/C's SME, NDF and other private sector programs of cutting back on a central CAIC superstructure that has been built up in large part to serve RDO/C requirements. Chapters II and III of the present report deal with these matters.

C. THE SCOPE AND METHODOLOGY OF THE PRESENT EVALUATION

1. Evaluation Work Statement

Our review of the Project Paper and the Project Paper Amendment in the previous section focuses on the kinds of "macro" issues that usually are the focus of evaluations near or after the end of a given project. The Scope of Work for the present mid-term evaluation⁶ in fact runs the gamut from the rather specific (e.g., assessing the CAIC Board Committee Structure) to the clearly fundamental (e.g., CAIC financial viability). Our view of CAIC's performance in the past two years is that it has been driven by fundamentals and by priorities which flow from those fundamentals. Accordingly, wherever possible, we have sought to relate our assessment of particulars to larger issues.

The Scope of Work for this evaluation is divided into three main segments. The first segment is directed to across-the-board CAIC issues such as those of organizational structure and delivery mechanisms. The second segment focusses mainly on CAIC's core functions and internal management. The final segment is directed to CAIC's Small and Medium Enterprise assistance.

Notably absent from the Scope of Work is any specific reference to National Development Foundations. Presumably this omission reflects the fact that the NDFs were considered in some detail in the Small Business Enterprise Evaluation completed in 1988. Nevertheless, the NDFs loom large in CAIC's activities and the implications of the rate of NDF spending are of critical strategic impor-

⁶ The full Work Statement and Scope of Evaluation are set out in Appendix A to this evaluation.

tance. Hence, although not specifically mentioned in the evaluation Scope of Work, we have devoted some attention to this subject.

Because NDF/WID funds are being spent at a much more rapid rate than originally anticipated, RDO/C and CAIC may have to face difficult extension/expansion issues well in advance of the presently scheduled PACD. The bottom line questions will have to do with RDO/C's willingness to continue its support well beyond the levels and time periods currently contained in the project documents. Specifically, should RDO/C extend and/or expand financial assistance to:

1. CAIC's "rock bottom" core functions of policy advocacy, membership development, and local affiliate development?
2. CAIC's "big ticket" core functions of administration, training, and export development?
3. NDFs and WID?
4. RCU's SME program?

While definitive answers are well beyond the scope and resources of the present evaluation, we have sought to present our findings and judgments in ways that will be of assistance to organizations which will be making hard judgment on these questions in the future.

2. Evaluation Schedule

This evaluation was carried out during a period of six weeks utilizing approximately 3.5 person months of professional effort. The backgrounds and roles of each of the members of the evaluation team are described in Appendix B of this report.

The evaluation plan was developed in Barbados during the week of May 29, 1989. Field surveys were conducted in Antigua, Barbados, Dominica, Grenada, Martinique, Montserrat, Trinidad, St. Kitts, St. Lucia, and St. Vincent during the period June 5 through June 21, 1989. The project supervisor participated in a review of the Draft Final Report held in Barbados in early August.

D. A BRIEF HISTORY OF THE CAIC IN A REGIONAL CONTEXT⁷

1. Pre-Revitalization

The Caribbean Association of Industry and Commerce (CAIC) was formed in the 1940s as the Federation of West Indian Chambers of Commerce. Since its inception, it has been a regional organization representing private business. In its early days, it was associated with an "establishment" of old, white plantation, trading and commercial families: a traditional power base of considerable importance before independence. The organization was reconstituted in 1955 as the CAIC, established in Trinidad. It was one of the few regional institutions in the Caribbean, at a time when most of the islands were tied more closely to their colonial administrators in Europe and North America than they were to each other.

Independence came to the larger Caribbean nations in the 1960s, complete with democratic institutions. Nationalism and populism were strong trends in early political campaigns, in spite of the misgivings of regional intellectuals about the viability of small, isolated island nations without some sort of integration.

Dr. Eric Williams, first Prime Minister of Trinidad, worked most intensely for a West Indian Federation, but centrifugal forces and the smaller nations' fear of domination by the larger Jamaica and Trinidad & Tobago kept these plans from coming to fruition.

Businesses with a regional perspective were CAIC's natural constituency, and a potential source of support for public figures promoting the cause of regional integration. However, during the 1960's, many CAIC members and other businessmen with a Caribbean orientation were identified by much of the public as "big business." As such, they represented an unpopular minority, who perceived themselves, and were perceived by others, as being very much at odds with the political mainstream of the region. Contacts between such businessmen and government officials, if they took place at all, were carefully screened from the eyes of the public, lest they provoke unfavorable comment or political retribution. In some countries, few businessmen had any access to political leaders at all. In this inhospitable atmosphere, many businessmen all but withdrew from public-private dialogue. Essentially, they took the attitude that they could get along best by ignoring the public sector and hoped that the public sector would ignore them.

⁷ This section is adapted from the Introduction to the Evaluation of the Private Sector Investment Assistance Project (June, 1987) by Louis Berger International, Inc.

During the 1960s and 1970s, the presidency of the CAIC moved from island to island. Each president made use of his own company facilities to carry out CAIC affairs. There was no permanent CAIC office or secretariat, although the CAIC Articles of Association were established in Trinidad. As far as many members were concerned, CAIC existed more in name than in reality. It had no program or plans, few funds, little or no influence in the public arena, and provided little in the way of services.

A second major attempt at regional integration in the public sector took place during the late 1960s, initiated by then Prime Minister Burnham of Guyana, Prime Minister Barrow of Barbados, and Prime Minister Bird of Antigua. It was quickly supported by Dr. Williams. The new organization was known as the Caribbean Free Trade Area, CARIFTA, and was formed in part as a response to the EEC and its plans for "stabilizing" trade in sugar (i.e., protecting European sugar producers). At the same time, there developed a growing interest in a Caribbean Community to facilitate co-operation in culture, education, and sports. Private sector support was solicited for CARIFTA on a low-key basis, and CAIC was the regional resource drawn upon for this purpose, but CAIC and the private sector in general were still maintaining a very low profile.

CARICOM took over from CARIFTA in the early 1970s. It included the concept of the Caribbean Community; although in practice, the unity achieved was much less than had been envisioned. Oil prices began to rise in 1973, and although the net impact to most economies was negative, oil wealth in Trinidad and elsewhere created new markets and fostered the development of manufacturing in the region. But the climate for business was growing less and less favorable.

During the 1970s, there was a strong political movement away from free-market economies in many nations in the Caribbean. Aside from Cuba, this trend was strongest in Guyana and Jamaica, and later (after the demise of the government of Eric Gairy), in Grenada. Prime Minister Bishop's political and economic experiment in Grenada was considered by many socialist and populist politicians as a good model for the region. Political conflict in Jamaica between the pro-business Jamaica Labour Party and the increasingly anti-business People's National Party was becoming violent.

Oil wealth accrued by the public sector in Trinidad was used to involve the government more deeply in the economy. The PNP administration in Jamaica imposed heavy taxes on its bauxite industry, while the Guyanese administration nationalized theirs. Governments and much of the public throughout the region felt that the public sector should be actively involved in the economy: providing services, guaranteeing employment, and ensuring an equitable distribution of income.

The intellectual community and many politicians in the region were quite hostile to business in general and business groupings in particular; and the hostility was mutual. At this point, CAIC still represented the old, mostly white commercial establishment - a grouping which had antagonisms not only with the labor movement and much of the public sector, but with many of the new manufacturers and small entrepreneurs as well. The economic and political differences were strongly reinforced by ethnic cleavages.

Businessmen (both the old commercial establishment and the new entrepreneurs) in many countries felt besieged in the face of increasing government regulation, taxation, and nationalization. In Guyana, Grenada, and even Jamaica, enterprises were actually closing down and leaving. The ones remaining considered the exodus to be the ominous trend, and were afraid that the region was in danger of changing irrevocably. In 1979 and 1980, a number of prominent Caribbean businessmen (most of them still core members of a moribund CAIC), felt the need for a grouping to counterbalance the anti-business drift in the region.

At the same time, USAID was re-examining their mode of assistance to the region. Up until that point, USAID had been channelling most of their assistance to the region through the Caribbean Development Bank. The Mission particularly interested in finding a vehicle of direct assistance to the private sector. The United States was also growing concerned with the political and economic trends in the region. USAID officers involved in capital and private sector development in the region met with the key members of the regional business community, including the (then) current president of CAIC and the (future) first president of a revitalized CAIC. Their efforts converged, and USAID indicated interest in providing financial assistance for certain functions which could be undertaken by a revitalized CAIC.

This interest led to a conference of prominent regional businessmen and USAID officials, partially funded by USAID. As a result of this conference, a steering committee was formed and a formal decision was made to elect new leadership to CAIC, to rebuild the institution, to finance new activities, and to become more involved in economic policy making in the region; in short, they voted to commit themselves and their resources to revitalizing CAIC.

2. Revitalisation

The core group of business leaders felt that in order to ensure the survival of the private sector in the region, they needed:

- 1) unity within the business community, and
- 2) a more positive and co-operative attitude towards government and the rest of Caribbean society.

For the first time, the owners and managers of the Caribbean's leading private firms began to reach out to the newer and smaller members of the business community - manufacturers and small traders and providers of services. This was a significant step: socially, the old business establishment had looked down on the new entrepreneurs and made few efforts to interact with them. Now CAIC sought them out and proposed a dialogue and a common effort for creating a better climate for private sector business in general. Although the priorities of the two groups were often divergent (e.g., the manufacturers sought protection and assistance while the traders sought relationships with extra-regional markets) the new emphasis was on mutual concerns such as social and economic stability, and a reduction of regulations and taxation.

In order to implement their common agenda, CAIC sought to present a more positive image to the public at large, one which emphasized their role in providing employment, income, and foreign exchange.

More importantly, CAIC's leaders recognized a need to project a more enlightened position to the rest of society in the region (which was simultaneously moving toward the political center, disappointed with the results of past policies in the region and increasingly wary of trends in Guyana and Grenada). These recognized a need to distance themselves from the positions and attitudes which had isolated them in the past and to demonstrate a sincere willingness to cooperate with labor and consumer groups as well as with the public sector.

To supplement their contacts with USAID, these business leaders conferred with overseas organizations of West Indians, such as the West India Committee in England (the old sugar lobby in the Commonwealth), C/CAA in the U.S. and CALA in Canada. The overseas organizations provided advice, moral support, and expectations of financial backing to supplement substantially the resources pledged by the core group itself.

The CAIC core group sought a more specific formula for solving their mutual problems. They took considerable care in recruiting an Executive Director who could command respect among public sector officials, regional leaders, and potential CAIC members throughout the Caribbean.

For this position, they sought out and recruited Mr. Patterson Thompson, the possessor of a combination of experience, qualifications, regional identity, and high-level contacts which most Caribbean observers deem to be unique. Mr. Thompson spent the early years of his career in major British-owned conglomerates in Guyana, working principally in the areas of accounting and finance. He then served as Guyana's Ambassador to the United Nations. Subsequently, he was named Chief Executive Officer of the Guyanese parastatal responsible for bauxite production, which was operated

profitably under his direction. Mr. Thompson established a reputation for integrity, astuteness, social consciousness, and political courage which made him widely esteemed in the Caribbean.

The members of the Board who selected Mr. Thompson were themselves heads of major Caribbean corporations. They saw the position for which they were recruiting him in terms that were familiar both to themselves and to Mr. Thompson -- as the equivalent of a corporate "Chief Executive Officer." Mr. Thompson was given the full support of the Board and a free hand in selecting and managing his staff.

With the help of a consultant funded by USAID, the leadership of CAIC articulated their ideas for the organization in a document entitled "Creating the Future." This document presented a plan of action tied to program goals.

Major activities included recruiting new members, providing training and technical assistance and pledges to:

- "... publicize the purposes and activities of the organization,
- ... develop methods of responding to public interest,
- ... encourage a positive business-community relationship,
- ... improve the public-policy and community-image climate for business effectiveness by working with public officials,
- ... promote new and expanded business activity to create jobs and raise income levels,
- ... promote exports of Caribbean industries,
- ... help identify opportunities for entrepreneurship within the region,
- ... work for a more equitable distribution of the fruits of private enterprise between people of the Caribbean nations and between the nations themselves within the Commonwealth Caribbean..."

The new CAIC established an office in Barbados, adopted new Articles of Association, set up a professional secretariat, signed a cooperative agreement with USAID, and began to implement their program on the basis of a detailed planning guide. The Articles of Association and the planning guide called for the establishment of departments of Organizational Affairs, Business-Government Relations, Economic Development, and Technical Assistance and Training, and established an ambitious set of goals and timetables for each.

3. Post-Revitalization

The political and economic climate in the Caribbean has changed markedly during the 1980s. The socialist government in Grenada was removed from office. The governments of most nations in the region (with the exceptions of Cuba and Guyana) are supportive of the private sector, willing to listen to the representations of the private sector, and to take the interests of the private sector into account in the making of policy.

The criticism of the business community has muted considerably within the press and the university community. CAIC and local business groupings are well accepted by government leaders.

Newspapers in the region, which had earlier ignored business news, now publish a business page, and report the views of local business on current events. Regional organs such as Caricom, the CDB, and the Caribbean Examinations Council (public education) consult regularly with CAIC. CAIC has been granted observer status with the Caricom Council of Ministers - Joint Consultative Group (including attendance at regular Caricom Heads of Government Annual Conferences and Council of Trade Ministers meetings, and special meetings on Caricom Rules of Origin, the Common External Tariff, and Fiscal Incentives).

Many governments are reducing the burdens of taxation and business regulation. Within the business community itself, CAIC represents a force for unity across divergent interests: between traditional commerce and the new entrepreneurial manufacturers, between the More Developed Countries and the Less Developed Countries, and among the different language groups in the region.

Over the years, Caribbean businessmen have developed a more enlightened attitude toward labor and consumer groups, ecological/environmental issues, and toward potential new entrepreneurs. CAIC has lobbied vigorously in favor of a human rights treaty before Caricom and for stiff environmental protection laws in Antigua. Businessmen credit CAIC with giving them a sense of unity, providing an effective common voice, and re-establishing a sense of pride in their contributions to society.

Larger social, political, and economic forces were obviously at work contributing to the changes outlined above (in continental North America and Europe as well as the Caribbean): some might say that CAIC was simply riding the crest of the wave. On the other hand, interviews conducted throughout the region during the course of several evaluations (including this one) support the claim that CAIC and its affiliates have been important actors in shaping the current state of affairs.

CHAPTER II

FINANCIAL PERFORMANCE AND COST-EFFECTIVENESS

A. INTRODUCTION

This Chapter is organized in six sections. Following the present introduction, Section B analyzes SEA project budgets and performance against budget. Section C examines self-sufficiency/sustainability scenarios and addresses some of the issues they raise. Section D provides an overview and assessment of CAIC's financial performance. Section E deals with the cost-effectiveness of service delivery by the SEA Program. Section F contains a summary assessment.

B. PROJECT BUDGETS AND PERFORMANCE AGAINST BUDGET

1. Introduction

This section has three purposes. First it reviews and comments on the budgets and/or financial analyses contained in the Project Paper, the Project Paper Amendment, and the most recent modification to the Project Agreement. Second, a framework is established which is used to reconcile budgets and operating statements presented in differing formats and to illuminate issues of financial performance and cost-effectiveness. Finally, in this section financial performance is compared with the most recent Project Agreement budget, and the issues implicit in that performance are underlined.

2. Project Paper Financial Design

The original SEA Project Paper (1986) provided an AID grant of U.S. \$10 million to CAIC. An additional \$3.9 million was to be provided from local sources, mainly in the form of commercial and private sector investment funds and client fees.

Of the \$10 million RDO/C grant, slightly under 22% represented line items for or directly associated with NDFs/WID as follows:

NDF Credit Component	\$ 950,000
NDF Operating Costs	\$ 670,000
WID Operating Costs	\$ 150,000
PADF TA for NDFs	\$ 300,000
Other NGOs Operating Costs ¹	\$ <u>100,000</u>
SUBTOTAL NDF/WID PROGRAM	\$2,170,000

¹ This item is treated as an operating cost (budgeted at zero) in the CAIC Work Plan for the Project Year 1989/90 (May 1989), p. 55. Our understanding is that it was originally intended to be part of the NDF/WID program budget.

About 36% represented line items for or directly associated with the RCU's SME programs as follows:

SME Technical Assistance Fund	\$1,290,000
IVS	\$ 240,000
IECS	\$ 200,000
SME Pilot Matching Fund	\$ 550,000
SME Training Fund	\$ 863,000
SBIC Pilot Project Investments	\$ <u>450,000</u>
 SUBTOTAL SME PROGRAM	 \$3,593,000

About 42% represented line items which cannot be associated with either of the two previous categories. They represent non-allocated costs as follows:

Management Support to Regional Coordinator	\$ 178,000
Regional Coordinator Operating Costs	\$1,505,000
National Coordinator Operating Costs	\$ 924,000
Project Monitoring, Audit & Evaluation	\$ 700,000
RDO/C Project Management	\$ 680,000
Contingency	\$ <u>250,000</u>
 SUBTOTAL NON-ALLOCATED	 \$4,237,000

When RDO/C Project Management and the contingency are removed, the items in the non-allocated cost category provide a basis for approximating a project "overhead rate" for activities administered by the RCU. Section E-3 below explains and applies this concept.

The original SEA project budget clearly emphasized the SME program, which was new and experimental. Costs not directly allocable to either the SME or the NDF/WID programs represented the largest single cost category. The subsequent increase in the NDF/WID share came out of both the SME program and out of non-allocated costs.

3. Amendments to Project Paper and Project Agreement

An Amendment to the Project Agreement in June 1987, increased the NDF/WID share of the \$10 million total from 22% to nearly 35%, shifting financial primacy from the SME program. The financial primacy of the NDF/WID program continued in the budget presented with Project Paper Amendment N°1 and has continued to date.

Project Paper Amendment N°1 added U.S. \$1.85 million to the \$10 million SEA Project, bringing the RDO/C total to \$11.85 million. Of the \$1.85 million added, \$1.65 million supported CAIC's core costs and \$200,000 was added to the original SEA budget. Modification N°9 to the Project Agreement (March, 1989) shows a total \$4,913,357 for NDF/WID credit and other costs, 44% of the budget

total of \$11,110,000. SME functions totalled \$2.3 million, about 21% of the total.

A significant change in the relative positions of the SME and NDF/WID line items thus took place between 1986 (original Project Paper) and 1989 (Project Agreement Modification N°9):

	<u>1986</u>	<u>1989</u>
SMEs	\$3.6 million	\$2.3 million
NDF/WID	\$2.2 million	\$4.9 million

Amounts originally budgeted for the NDFs and WID more than doubled in less than three years. Amounts budgeted for the SME program were reduced by more than one-third.

A comparison of core funding line items in Project Paper Amendment N°1 (1988) and Project Agreement Modification N°9 (1989) shows relatively small changes:

	Project Paper Amendment #1		Project Agreement Modification N°9	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Policy Advocacy	\$ 116,550	(7%)	\$ 71,500	(4%)
CAIC Administration	\$ 631,931	(38%)	\$ 619,467	(39%)
Membership Development	\$ 15,000	(1%)	\$ 85,000	(5%)
Training	\$ 389,828	(24%)	\$ 360,915	(23%)
LADP	\$ 302,500	(18%)	\$ 269,500	(17%)
Export Development	\$ <u>194,241</u>	(12%)	\$ <u>190,911</u>	(12%)
Total	\$1,650,000	(100%)	\$1,597,293	(100%)

Total funding for core functions declined by 3.2% and all line items except for the Membership Development decreased. Of the six items listed above, five represent "program costs" and one (Administration) is non-allocated or "overhead" cost.

4. Combining Program and Overhead Costs

The distinctions between "program," "non-allocated" costs, and overhead costs were not explicitly made in the SEA budgets, nor in the project documents. However, using these concepts, we can now combine the RCU cost elements in the Project Paper financial analysis with the CAIC core cost elements presented in Amendment N°1 to the Project Paper as follows:

COMPENSATED PROGRAM COSTS

NDF/WID Program	\$2,170,000
SME Program	\$3,593,000
Policy Advocacy	\$ 71,500
Membership Development	\$ 85,000
Training	\$ 360,915
LADP	\$ 269,500
Export Development	\$ 190,911
TOTAL	\$6,740,826

COMPENSATED OVERHEAD COSTS²

Management Support to Regional Coordinator	\$ 178,000
Regional Coordinator Operating Costs	\$1,505,000
National Coordinator Operating Costs	\$ 924,000
Project Monitoring, Audit & Evaluation	\$ 700,000
CAIC Administration	\$ 619,467
TOTAL	\$3,426,467

The concepts involved are further explained in Subsection E-3 below and in the following subsection.

5. Performance Against Budget

The following tabulation shows performance against budget as set forth in Modification N°9 to the Project Agreement for the period 1986-1988:

	<u>CURRENT</u>	<u>ACTUAL EXPENDITURES</u>			<u>REMAINING</u>
	<u>BUDGET</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>END 1988</u>
SME	2,323,233	309,227	474,213	263,940	1,275,853
NDF/WID	4,913,357	760,648	1,351,646	1,390,484	1,410,579
NON-ALL.	2,276,108	192,460	400,507	437,145	1,245,996
CORE COSTS	<u>1,597,302</u>	<u>0</u>	<u>94,321</u>	<u>481,059</u>	<u>1,021,922</u>
TOTALS	11,110,000	1,262,335	2,320,687	2,572,628	4,954,350

Total expenditures through December 1988 were \$6,155,650 or about 55% of the total project budget. As of the end of 1988, 35 months

² Omits RDO/C Management Costs and Contingency. Overhead costs equal non-allocated costs less RDO/C Management Costs and the Contingency.

out of 60 months or about 58% of the project period had elapsed. If it were assumed that spending would continue for the rest of the project at the same rate as in 1988, there would be an overrun of about \$363,000, or about 1% of CAIC's bottom line.

However, the underlying dynamics of the project are driving it toward a much larger overrun. These dynamics are (1) the very high rate of spending for NDF costs which may be only gradually moderated and (2) the accelerating pace of the SME program. A more realistic picture of the direction in which spending is heading is presented in the following tabulation, which shows an overrun of U.S. \$1.76 million:

	REMAINING END 1988	BUDGET 1989	PROJEC. ED 1990/91	ENDING BALANCE
SME	1,275,853	1,027,782	1,005,115	(757,044)
NDF/WID	1,410,579	1,352,000	1,288,540	(1,229,960)
NON-ALLOCATED	1,245,996	493,162	534,259	218,575
CORE COSTS	1,021,922	506,922	515,000	0
TOTALS	4,954,350	3,379,866	3,342,914	(1,768,430)

The 1989 budget figures for SME, NDF/WID, and Non-Allocated Costs are taken from the CAIC Work Plan submitted in May of 1989. That Work Plan did not include estimates of Core Costs for the year. In the light of the accelerated utilization of the Core Cost line items, we have projected a continuing acceleration, resulting in the full utilization of budgeted core costs by the project's end.

The projection for 1990/91 is based on the CAIC proposed budget with the following modifications:

- (1) the figures have been adjusted for a thirteen month period (through January, 1991);
- (2) it is assumed that non-NDF credit would be held to the \$300,000 line item limit, slowing the pace of SME spending slightly.
- (3) it is assumed that funding of NDFs/WID would decrease from the previous year in about the same proportion as the 1988-1989 decrease.

The results show substantial overruns of the SME and NDF/WID line items, a modest surplus in non-allocated costs, and a neutral result (as premised) for CAIC core costs.

6. Commentary

While it is possible to make a large number of additional adjustments and refinements, the implications of the projections we have made -- taken in combination with other evaluation findings -- are very clear:

- (1) The SME program has laid down a foundation which it now is able to, and needs to, expand.
- (2) The NDF program has reached a level of spending that may be quite difficult to curtail.
- (3) If substantial funds are not to be added to the project budget, the dynamics of the programs supported by the project must be changed.
- (4) The earlier the budget issues can be addressed, the greater the likelihood that they can be satisfactorily resolved.

The budgetary issues, like the sustainability issues discussed in the following section, represent challenges not only to this project, but also to RDO/C's overall strategy for dealing with its implementing institutions and with the private sector.

C. SUSTAINABILITY PROJECTIONS AND ISSUES

1. Introduction

The original SEA Project Paper (1986) had little to say about the sustainability of CAIC, the NDFs, or the new SME functions which it was introducing. By contrast, Project Paper Amendment N°1 gave this subject top billing as it merged support of CAIC core functions into the main SEA project. At the conclusion of the three and a half year Amendment period (from the effective date of the amendment), the Amendment anticipated that CAIC would be capable of financing its core activities and that its affiliates in nine countries would be self-sustaining entities.³

Project Paper Amendment N°. 1 added \$1.65 million for core costs to the SEA budget. The Amendment's financial plan, reproduced in Table II-1, showed costs for core activities declining from an annual rate of spending of \$600,000 in the first half-year of the project (\$300,000 times two) to \$400,000 in the last project year. As shown in the Table, most of the reduction was to take place in

³ Project Paper Amendment No. 1 (July, 1987). pp. 1, 12.

TABLE II-1
PROJECTED USE OF FUNDS FOR CORE ACTIVITIES

	<u>FIRST</u>	<u>SECOND</u>	<u>YEAR</u> <u>THIRD</u>	<u>FOURTH</u>	<u>TOTAL</u>
	\$	\$	\$	\$	\$
1. <u>Policy Advocacy</u> (Economic Research and Analysis Dept.)					
Policy Adv/Business Policy	11,500	20,000	20,000	20,000	71,500
TA for Policy Studies	0	15,000	15,000	15,000	45,000
Sub-Total	11,500	35,000	35,000	35,000	116,500
2. <u>CAIC Administration</u>					
Personnel Costs	87,786	152,695	159,330	166,296	566,107
Staff Training	0	25,000	12,000	12,000	49,000
Short-Term TA	0	6,636	1,819	8,369	16,824
Sub-Total	87,786	184,331	173,149	186,665	631,931
3. <u>Membership Development</u>					
TA for Strategy Development	0	15,000	0	0	15,000
Sub-Total	0	15,000	0	0	15,000
4. <u>Training</u> (Training & LA Dept.)					
Personnel Costs	53,884	74,844	78,585	82,515	289,828
Anal/Eval. Training	0	40,000	25,000	25,000	90,000
Training Support	5,000	5,000	0	0	10,000
Sub-Total	58,884	119,844	103,585	107,515	389,828
5. <u>LADP</u>					
Grants to Affiliates	90,000	70,000	70,000	0	230,000
TA for Affiliates	9,500	25,000	15,000	15,000	64,500
Miami Conference	2,000	2,000	2,000	2,000	8,000
Sub-Total	101,500	97,000	87,000	17,000	302,500
6. <u>Export Development</u>					
Personnel	24,330	48,825	51,266	53,820	178,241
Caribbean Manufacturers Council	16,000	0	0	0	16,000
Sub-Total	40,330	48,825	51,266	53,820	194,241
GRAND TOTAL	300,000	500,000	450,000	400,000	1,650,000

SOURCE: Small Enterprise Assistance Project Paper, Amendment No. 1, p. 26b.

the Local Affiliate Development Program and in items other than the costs of regular staff personnel. Personnel costs themselves rise significantly during the period.

As discussed in Section B-3 of Chapter I, the Economic/Financial Analysis applied both an "acid test" to the costs of core services (whether CAIC members were willing to pay enough dues and clients were willing to pay enough for training and other services rendered by the Association) and a less stringent "sustainability test" (whether the organization is likely to be able to cover its fees and costs plus voluntary donations from outside organizations, AID excluded).

The Project Paper Amendment's economic/financial analysis laid out four financial scenarios/models to describe alternative futures for CAIC. The analysis concluded that an institution with an annual budget of approximately \$600,000 per year (as compared with a present annual budget in excess of \$1 million) and a staff of five to seven full time employees (as compared with its present staff of 24) probably could attract sufficient members and donor contributions to be viable over the long term.

2. The Four Scenarios

Each of the four scenario/models is discussed briefly below. The four scenario models are reproduced in Appendix C of this evaluation report. Section D of the present chapter compares Scenario 2 with a restatement by CAIC of its financial performance and its projections for the future. The CAIC restatement/projection, which is in the same format as the scenarios, is reproduced in Appendix D.

Scenario 1: Self Sufficiency at Current Operating Level

The first scenario assumed that CAIC -- in the absence of any donor funding -- would seek to maintain the same level of core operations as it had during the course of the project. Since some core costs (particularly those of administrative) are directly related to AID requirements, it was assumed that costs could be cut from the level of slightly over U.S. \$1 million per year expenditure during the project period to about \$700,000 during the first post-project year (1991-1992). It also was assumed that at least the direct costs of training and technical assistance would be covered by user fees. In order to break even under these assumptions, the projection shows that dues would have to increase from an estimated U.S. \$357,000 in 1988-89 to U.S. \$576,000 in 1991-92, a growth of more than 61% over three years. The scenario/model projects a need for 43.6% increase in total revenues between 1990 and 1992, an

achievement which is judged unlikely. The analysis in the Project Paper Amendment concludes that it is doubtful that CAIC can meet the "acid test" of sustainability at its present level of core activity.

Scenario 2: Sustainability at Current Operating Level

Scenario 2 is the same as the previous scenario except that receipts from dues are projected to increase by about 6% per annum and substantial assistance from other donors is assumed in the years following 1990-91. The analysis concludes that such a level of donor assistance is unlikely:

This high-level of non-specific donor funding, particularly in the first year after USAID funding has ceased, seems unlikely to materialize based on CAIC's past experience, so that self-sustainability, is improbable at that high level of activity unless donors can be persuaded to give general, rather than project specific assistance.⁴

Scenario 3: Minimal Self-Sufficiency

Scenario 3 is a "minimalist" or "low" projection. CAIC operations would be sharply scaled down from current levels, and would focus exclusively on policy advocacy and membership development. The austere organization would have five full time employees and receive the equivalent of the services of one full time employee's services from short-term assistance. Operating costs of the scaled down operation would be \$485,000 in 1991-92. No increases in receipts from dues are projected after 1991-92.

Scenario 4: Minimal Sustainability Plus

In this model, CAIC was assumed to retain its present functions, but to operate each of them in a scaled-down manner. The key differences between Scenario 3 and Scenario 4 are the assumptions (1) that dues could be increased at the rate of about six per cent per year for an extended period, and (2) that \$94,000 in revenues would be generated from Training and Technical Assistance after RDO/C funding ceases, enough to cover the costs of these services.⁵ The operating costs of the "Minimal Sustainability Plus" scenario were projected as \$552,000 during 1991-1992.

⁴ Project Paper Amendment No. 1 (July, 1987), Annex E, p. 6.

⁵ This compares with receipts from training during the RDO/C assistance period of well under \$10,000 per year.

1. Commentary

CAIC's "core" functions (i.e., the functions funded by Amendment N°1 to the Project Paper) are not at all of a single kind. Taken as a whole, they serve the interests of CAIC's main constituency only in part. Administration, the largest single item at \$631,931, provides CAIC with the capability to comply with AID requirements. The administration item may be regarded as an "overhead" item, properly related to all program activities funded by AID, not just the five items included in core costs. Given the magnitude of administrative costs (roughly equivalent to two thirds of total membership revenues on an annual basis) and the fact that their principal purpose is to assure compliance with AID requirements and practices, it seems most unlikely that the CAIC membership would agree to assume these costs.

Training, the second largest item at \$389,828, was introduced into CAIC at the time of its initial revitalization essentially as a development function. CAIC's training unit certainly can and does serve organizations capable of defraying full costs and it certainly has the potential for becoming self-sustaining. But the orientation and rationale of many of its activities are development-oriented, and will remain so for some time to come. In order to become self-sufficient, the training unit will need to sell to the development market in the Caribbean, a development market in which RDO/C is a major player.

Export Development (funded at \$192,241) is purely a development function. RDO/C funding is tied into a multiple donor effort in which CAIC is participating.

The reality is that the bulk of CAIC core funding is earmarked for activities very close to the mainstream of RDO/C's own programmatic and administrative interests. These functions are so closely related to the Mission's future intentions (beyond 1990-91) with respect to its support of NDF's, SME's and other development activities related to the private sector, that it is difficult to address them independently of these intentions.

The reality is that only about ten percent of RDO/C's funding (U.S. \$156,500 out of the U.S. \$1.6 million provided by the Project Agreement Modification N°9) is related to CAIC's "baseline" program functions of policy advocacy and membership development. Another seventeen percent (U.S. \$268,500) represented funding of Local Affiliate Development activities, but a sharp curtailment of this program can be expected.

Our view is that, if need be, CAIC could carry on its most basic functions of policy advocacy and membership development with a staff of five good people. We suspect that CAIC can now meet the "acid test" with respect to these two institutional essentials of

the original revitalization. By running a tight ship, it could live within the resources its members currently provide.

The assumption that USAID grant funding of core activities will drop to zero in 1991 represents a useful analytical hypothesis, but it is one which may not reflect RDO/C's best interests in the real world in which it may wish to continue to use CAIC as an implementing institution for its programs. Policy advocacy and membership support aside, what in fact may be at stake in the "core funding" discussion is CAIC's ability to carry out AID development functions and CAIC's future as an instrumentality for implementing RDO/C's programs. Given the present composition of CAIC's "core costs", the burden of the sustainability dilemma does not lie with CAIC alone: it should represent a concern which CAIC and the Mission share in common if each wishes the Association to serve as an implementing agency for complex programs in the future.

D. CAIC'S FINANCIAL PERFORMANCE

1. Introduction

This section examines CAIC's financial performance as a membership organization carrying out a variety of service functions (Subsection 2) and with SEAP financial performance against budget (Subsection 3). Each subsection ends with an assessment.

2. CAIC Financial Performance as a Multi-Service Membership Organization

To provide a perspective on CAIC's financial performance which fits into a familiar overall framework, we asked CAIC's Finance Department to prepare a restatement of its past financial performance and a projection of future performance following the same format as that used for the scenarios contained in Project Paper Amendment N°1. The response is reproduced in Appendix D. The main points of comparison are discussed below.

a. Performance in 1987 and 1988

A summary comparison of the Amendment N°1 Scenario data for the years 1987-88 and 1988-89 with CAIC historical data⁶ is as follows:

⁶ The project started in February. The project years thus start in February and end in January. The prior calendar year is used as a proxy for the project year. Thus the historical data for 1987-8 are really those for calendar year 1987.

	SCENARIOS		CAIC ACTUAL	
	1987-88	1988-89	1987-88	1988-89
REVENUE:				
MEMBERSHIP DUES	337,000	357,000	270,500	279,019
BANK INTEREST	6,000	7,000	6,000	--
GRANTS				
USAID	500,000	500,000	466,642	484,665
OTHER	53,000	142,000	--	--
OTHER INCOME	77,000	74,000	21,295	86,087
TRAINING REVENUE	2,000	4,000	7,000	7,500
TOTALS	975,000	1,084,000	767,443	857,271
%increase in dues		5.9%		3.0%
COSTS	975,000	1,084,000	899,224	892,510
SURPLUS/DEFICIT	0	0	(131,781)	(35,239)

All four of the scenarios in Project Paper N°1 were identical until 1992-93 (the first year after the completion of the SEA project). It is clear that both CAIC's actual revenues and costs in the first two years were well below the projections.

A striking difference is in the amount of membership dues shown in each year. The use of much higher numbers in the scenarios is probably attributable to CAIC's use of an accrual accounting approach to showing revenues from dues prior to 1987. This accrual approach was adopted in 1980 and continued through 1986. Members of the Association who did not (or were not able to) pay their dues were carried as accounts receivable on the books, although the chances of collection of past dues may have been remote. Under this system, both revenues and arrearages were overstated. In 1987, CAIC went to a cash basis for membership dues, recognizing dues as revenues only when payments were transmitted.

The scenarios in the Project Paper Amendment projected substantial grants from other donors during the first two years. None were received during these years, but are expected to start in 1989 in connection with CAIC's export promotion activities.

The Administration department exceeded Scenario projections in the first two project years. The Training and Local Affiliate Development Department was under the Scenario projections in the first year but not the second. Actual expenses were far below the Scenario projections for Communications in both years, and well below projections for the Economic Research and Analysis Department in the second year. An "Other" category shown in the projections (probably as a contingency) was not actually used.

CAIC registered a very substantial deficit in 1987 which was significantly reduced in 1988. The Association expects a small surplus in 1989.

b. Projections for the Future

CAIC's projections for the future closely resemble the pattern of Scenario #2 (set out in Appendix C). These projections for the years 1989-90, 1990-91, 1991-92, and 1992-93 follow.

CAIC PROJECTIONS

	1989-90	1990-91	1991-92	1992-93
REVENUE:				
MEMBERSHIP DUES	323,600	339,780	355,769	374,607
BANK INTEREST	0	0	0	0
GRANTS				
USAID	517,000	430,000	0	0
OTHER	163,000	172,000	232,000	60,000
OTHER INCOME	109,000	130,000	130,000	130,000
TRAINING REVENUE	8,250	40,000	65,000	65,000
TOTALS	1,120,850	1,111,780	783,769	664,607
%increase in dues	13.7%	5.0%	5.0%	5.0%
COSTS	1,120,616	1,103,920	785,000	642,650
SURPLUS/DEFICIT	234	7,860	(1,231)	21,957

The critical assumptions are (1) the 13.7% increase in revenues in 1989-90; (2) substantial grants from sources other than AID for three of the four years; (3) the rapid growth of training revenues; and (4) substantial other income.

CAIC's membership revenues have been stagnant in recent years, showing a relatively low growth of 3% between 1987 and 1988. The assumption, contained in CAIC's financial plans, that a major increase can be achieved in 1989 is a critical one. If, for example, income from dues only increases by the same amount as in the previous year (3%), a deficit of about \$36,000 will result (about the same as in 1988).

In his comments on a previous draft of this report, the SEAP Regional Coordinator asks the evaluators to recommend:

...which unit or manager should bear the direct responsibility for realizing the critical 13.7% increase in dues in 1989/90 and future targets.

As we see it, there are four kinds of responsibilities with respect to setting and achieving targets for dues. An early requirement is for staff analysis providing data and recommendations to key

decision-makers and others on prospective financial requirements of present and anticipated programs (including dues). The responsibility for that analytical function lies with the Finance Department, which in fact provided the evaluators with the projections shown above.

The second (and operationally more fundamental) requirement is for the President, the Board, and the Executive Director of CAIC to commit themselves and the organization to achieving particular dues-collection targets for the forthcoming year, to establish a realistic dues collection strategy, and to make suitable assignments of responsibility. Normally the Executive Director and the Finance and Membership Subcommittee of the Board should take the lead.

The third function is that of solicitation of members. Ordinarily, the Executive Director, Board members, and other key members of the organization should collaborate on a program of face-to-face fund-raising concentrating on present and prospective members thought to be particularly important to meeting the targets. As wide a range of other CAIC members as possible should be involved in the face-to-face effort. Mail, telephone, and other forms of communications also can be important.

The fourth function is that of providing sufficient staff support for the fund-raising effort. Normally support functions would be carried out by the Communications and Membership Department under the direction of the Executive Director. The staffing of this Department is discussed in Chapter III below.

Raising membership dues is a classic "baseline" activity which is essential to survival of a business association. It has been well said that the three most important concerns of a membership association are (1) membership; (2) membership; and (3) membership. From this point of view, every member of CAIC and of the staff of its Secretariat has an interest in expanding the organization's membership and its income from membership dues.

c. Membership Trends

CAIC combines organizational and individual memberships in the same way as does the Chamber of Commerce of the United States and the umbrella organization for cooperatives in the United States.

CAIC has three categories of membership, Corporate Members (companies in trade, manufacturing, and agribusiness that belong to CAIC in their individual capacities), Associate Members (companies in banking, finance, and insurance), and organizational members (national and regional organizations, such as Chambers of Commerce and Industry and Manufacturers Associations). Of these three membership categories, corporate membership is particularly

important because it is both the largest source of income and the most subject to change.

As tabulated from CAIC records, the organization's membership through April 1989 was as follows:

	<u>NUMBER OF CAIC MEMBERS</u>				Through April
	1985	1986	1987	1988	1989
Corporate	86	90	92	95	93
Associate	4	5	5	6	7
Organization	27	27	27	27	27
TOTAL	117	122	124	129	127

Because dues are assessed by formulas which take into account corporate size and location, trends in membership are not always reflected in revenues. Thus, in a given year seven new large corporate members could replace eight small members leaving -- and an increase in membership revenues would result. Nevertheless, while the books for 1989 certainly are not closed, both the trends over the years and the results for the current year suggest that achieving a 13.1% increase in revenues in 1989-90 will be difficult.

One positive factor that may help CAIC achieve its targets is the fact that the organization currently has a Jamaican President. Jamaica is one territory with a significant potential for membership expansion. At present, the respective contributions of three moderately developed countries are:

Barbados	U.S. \$112,000
Trinidad	U.S. \$ 95,200
Jamaica	U.S. \$ 48,500

Jamaica's economy in fact is much larger than that of Barbados, and its potential support for the organization should be considerable. CAIC's policy advocacy for greater integration of CARICOM economies should help to sell the Jamaican private sector on the utility of a regional private sector organization.

d. Other Factors

CAIC projections show substantial grants from non-AID sources during the three years of the IADB-funded Export Promotion Project (1989-90, 1990-91, and 1991-92) and declining steeply thereafter. Other income consists of income from sub-leases, the SEAP administrative fee, radio programs, the business center, and studies. The sub-lease income is quite substantial and conceivably could be increased if CAIC were to change locations. CAIC's

projections of revenues from training activities show a sharp increase from \$8,250 in 1989/90 to \$40,000 in 1990/91. That represents a very significant increase in activity and recovery, but is conceivable.

•. Assessment

It will be quite difficult, but not impossible, for CAIC to meet its financial targets for 1989/90 and 1990/91. The interest of development agency donors, and AID in particular, is that CAIC maintain the administrative mechanisms adequate to serve their requirements as long as CAIC functions as an institution for delivering development services. From this point of view, the "zero assumptions" for AID funding beyond the SEAP PACD seem unduly severe. However, we agree with the position presented in the Project Paper N°1 to the extent that CAIC's "baseline" functions (policy advocacy and membership development) should be subjected to market tests.

The local affiliate development program (LADP) at present provides grants under CAIC management to private sector organizations in OECs territories. At present the grants are reduced as each organization raises more revenues. This reduces the incentive for increasing membership revenues. LADP should be re-oriented to providing matching grants to organizations that increase membership revenues. This will create the conditions for long-term self-sufficiency of the affiliates.

If new funding is considered for CAIC and/or its affiliates for activities not concerned with the execution and effective administration of development programs, we suggest that it should be cast principally in the form of "challenge grants." Such grants could provide matching payment formulas directly tied to net increases in membership and paid-in dues.

CAIC's successful management of SEAP should increase donors confidence in its ability to manage other projects. The management fees from them should be structured so as to provide a contribution that would augment CAIC's core finances.

CAIC may be able to raise additional revenue through selling of its services and perhaps through conventions. Yet, membership drives should be the principal thrust of its revenue strategy. Membership growth is fundamental not only because it can provide a relatively reliable source of income, but also because it directly affects the political standing and policy impact of the organization.

E. COST-EFFECTIVENESS OF RCU SERVICE DELIVERY

1. Introduction

In this section, we provide a summary review of data on the cost-effectiveness of RCU operations. Our evaluation Scope of Work does not include assessment of the NDF and WID microenterprise programs in themselves, and we did not examine the internal costs and finances of these organizations. We do, however, examine some data pertaining to NDFs/WID for purposes of providing (1) a "money moving" overhead rate (relationship of operating and central costs to money expended for the SME and NDF/WID programs, and (2) some hypotheses concerning the expansion of NDF/WID share of the overall budget which has taken place since the project was undertaken.

2. The Structure of RCU Overhead

The concept of "overhead" which we use in this evaluation is quite different from the one which CAIC uses for purposes of cost control, and serves a different purpose. CAIC's "overhead" budgeting provides a disciplined framework for allocating and keeping track of expenditures by department and by detailed line item (e.g., electricity, insurance, postage, stationery) on an on-going basis.⁷ It is well designed for its purposes.

We treat RCU "overhead" in this evaluation as a group of costs which relate directly to CAIC's project budget. They include a management fee paid to CAIC, the operating costs of the Regional Coordinating Unit, the operating costs of the National Coordinating Institutions, the costs of certain non-governmental organizations, together with those of audits, monitoring, and evaluation. The "base" of the overhead used for the purposes of this evaluation consists of (1) monies provided to NDFs/WID for administration, technical assistance, loan operations, and loans; and (2) costs of SME technical assistance and training agreements, SME technical assistance and training funds, and non-NDF credit. We are adopting this "macro" concept of overhead of RCU (as an umbrella organization including the costs of the NDI's) for two reasons:

It illuminates the financial structure and performance of the SEA project; and

It permits comparisons with the financial plan contained in the original (1986) SEA Project Paper.

⁷ Examples of CAIC's overhead budgets are contained in Schedule 1 through Schedule 5 in CAIC's Work Plan for Project Year 1989/90 (May 1989).

Note well that the costs of NDI administration expenses are treated as "overhead" costs, while NDF/WID administrative costs are included in the base. This reflects both the classification used in the 1986 Project paper and, we think, functional reality. As discussed below, there are close relationships and cost-effectiveness trade-offs between various combinations of levels of regional (RCU) and national (NDI) guidance and supervision. The functional relationships between RCU supervision and NDF/WID administrative costs thus are judged not to be of the same kind.

3. Overhead Trends and Comparisons

In Section B-2 above, we saw that the original budget in the 1986 Project Paper could be restated as follows:

NDF Program Costs	\$ 2,170,000
SME Program Costs	3,593,000
Non-allocated Costs	<u>4,237,000</u>
 TOTAL	 \$10,000,000

In order to convert these figures into a simple overhead rate, we first remove RDO/C project management costs (\$680,000) and the contingency (\$250,000) from non-allocated costs. Overhead then becomes:

Non-allocated Costs	\$4,237,000
Less RDO/C Project Management	(680,000)
Less Contingency	<u>(250,000)</u>
 Overhead	 \$3,307,000

A simple overhead rate can now be calculated as follows:

Program Costs (\$2,170,000 + \$3,593,000) = \$5,763,000

divided by

Overhead Costs (\$3,307,000) =

A Five-Year Overhead Rate of 57.38%.

Applying this concept of overhead to the time-phased financial plan in the Project Paper produces the following results:

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**OVERHEAD RATE BASED ON
PROJECT PAPER FINANCIAL PLAN
(Millions of U.S. Dollars)**

	FY 1986	FY 1987	FY 1988	FY 1989	FY 1990
Program Costs	\$1.940	\$1.595	\$1.225	\$0.523	\$0.430
Overhead Costs	\$0.700	\$0.650	\$0.673	\$0.612	\$0.672
Overhead Rate	36.08%	40.75%	54.94%	117.02%	140.00%

According to the project's financial plan, overhead costs remain fairly constant while program costs decline sharply. The decline in program costs is primarily attributable to the "front-end loading" of NDF/WID costs which were programmed to decline from \$1.12 million in FY 1986 to \$175,000 in FY1988. The result is the steep ascent of the overhead rate.

Our understanding is that there were two basic reasons for this pattern in the Project Paper's financial plan. First, it was assumed, in the early stages of project design, that the funding level would be about \$20 million and that the NDFs/WID would be financed throughout its term. When it was decided that funding would be reduced to about half that amount, the later years of the project and the NDF funding took the brunt of the cuts. Second, it was assumed that as program activities and costs phased down, project management would devote a very significant portion of its time to finding other sources of funding and to solving the sustainability problem. Thus the overhead rate (the relationship of operating costs to program costs) rises in each year, nearly quadrupling between the first and the fifth year.

The pattern of actual expenditures is shown in the following tabulation:

**OVERHEAD RATE BASED
ON ACTUAL EXPENDITURES
(Millions of U.S. Dollars)**

	<u>1986</u>	<u>1987</u>	<u>1988</u>
Program Costs	\$1.070	\$1.826	\$1.654
Overhead Costs	\$0.192	\$0.354	\$0.360
Overhead Rate	17.99%	21.94%	26.42%

The overhead rate is significantly lower than that projected in the project paper -- about half of the levels of the rates derived from the Project Paper data for the years 1986 through 1988.

Specific factors influencing the actual course of events include the following.

A more gradual use of the TA/Training Fund and TA/Training Agreements for the SME program than the "front end load" approach employed in the Project Paper's financial plan.

Very limited draw-downs of non-NDF credit as compared to the Project Paper's assumption that \$1,000,000 would be drawn down in the first three project years.

A rising pattern of NDF/WID funding rather than a declining one.

Operating costs which are lower in each of the first three years than those shown in the financial plan in the Project Paper.

Much more modest use of monitoring, audit and evaluation funds in the first three years than that predicted in the Project Paper financial plan.

In his comments on a previous draft of this report, the SEAP Regional Coordinator states:

It is incorrect to state that low overhead costs were partly caused by non-attention to sustainability. RCU's deliberate policy to control overhead spending, keep a small staff, [bring about] the elimination of unnecessary superstructures and ...maximize impact on the clientele were the prevailing forces.

It is not our view that CAIC has failed to pay attention to, or indeed to spend money on, sustainability issues. However, given the (probably unreasonably draconian) projections of zero AID support after the current PACD contained in the Project Paper Amendment and the (probably unrealistically high) projected spending on sustainability activities assumed in the Project Paper, the project appears not to be meeting project design expectations. We believe that CAIC's efforts have been laudable as far as they have gone, but more attention needs to be devoted to sustainability now. Other things being equal, keeping overhead costs low is a laudable instrumental practice, but this practice should not be allowed to deflect the project from achieving an important goal.

The Regional Coordinator also states that:

RCU understaffing (in the RCU unit) was directly caused by the spending cuts which RDO/C incurred in 87/88. The hiring of additional staff was then postponed.

Again, we think that the important question is what is to be done in the future. We understand that RCU is now recruiting for an additional position and we believe that to be laudable. In our judgement, RCU's overhead cost performance thus far reflects both care and prudence and (for whatever reason) some underspending for activities needed to build up the capabilities of the SME program. The program potentially is a very good one and it deserves the administrative support necessary for growth.

4. CAIC Management Fee

In 1987, the management fee to CAIC was \$7,500, about 2% of the overhead base in that year. In 1988 the management fee was \$17,886, about 4% of the overhead base in 1988. No CAIC management fee was charged in 1986.

The CAIC management fee may be considered roughly equivalent to a negotiated segment of General and Administrative expense. It is meant to cover those central costs not included in AID support of CAIC core costs. The CAIC management fee was introduced after extended negotiations between the Mission and CAIC. It is a concept which we find attractive in that it could provide a source of funds from which sustainability-related costs of pursuing other sources of funding can be defrayed, and because it serves as an additional motivation for sustaining project performance. Considerations of sustainability require covering full costs associated with a given activity. The management fee could be too low.

5. Utilization of Funds by NDFs and WID

We undertake a brief analysis of the of some data on the utilization of funds by the NDFs and WID in order to provide perspectives on sustainability issues and on the shift from planned SME primacy to de facto NDF primacy which has taken place during the course of the project.

a. SEA Assistance to NDFs/WID

For the period 1986 through 1988, the percentages of operating costs and loan funds supported by AID funding were as follows:

	Operating Costs		Funding for Loans	
	<u>Total US \$</u>	<u>SEA%</u>	<u>Total US \$</u>	<u>SEA%</u>
1986	\$ 816,071	49%	\$ 858,653	42%
1987	\$ 956,402	63%	\$1,072,071	70%
1988	\$1,061,815	52%	\$1,499,538	56%

It should be noted that both NDF operating costs and loan funds grew rapidly during the period. However, loan funds grew more

rapidly than operating costs, suggesting (superficially at least) that efficiency could be improving. In cases of both operating costs and loan funds, SEA assistance represented a higher percentage of NDF/SEA in 1988 than it did in 1986. While the percentage of SEA funding was lower in 1988 than in 1987, it is certainly not clear from the data that the NDFs/WID are moving toward independence from SEA funding.

In terms of annual dollar totals, SEA support of operating costs decreased between 1987 and 1988, but funding for loans increased in each year:

	<u>Operating Costs</u> <u>US \$ From SEA</u>	<u>Funding for Loans</u> <u>US \$ From SEA</u>
1986	\$401,648	\$358,964
1987	\$603,360	\$748,286
1988	\$557,426	\$833,058

The loan funding increase should be a source of particular concern. It should be noted that AID funding for NDF/WID loans is provided on a grant basis. Once a microenterprise pays back its loan to an NDF, the NDF does not have a repayment or other obligation to SEA or AID. It can use reflows at its discretion. Given these circumstances, an NDF with an expectation of approaching reduction or termination of AID funding might have a strong motivation to increase the volume of loan applications which it accepts.⁸ That motivation could include expectation that a higher percentage of overhead costs could be covered by increased volume of interest payments and/or by a desire to receive unencumbered reflows. Either way, loan quality conceivably could suffer as loan volume expands. As discussed in the following section, the monitoring information we have examined is considerably more ambiguous on this point than it can and should be. Supplemental monitoring information is required.

b. Arrearages and Bad Loans

Several NDFs and WID receive loan funds from sources other than RCU. Although these organizations do in fact segregate their individual loans by source and could indeed report on arrearage and defaults rates for AID-funded loans alone, the data which they present to RCU relates to the total portfolios of these organizations and not to the loans funded by AID funds alone. That form of presentation makes it difficult to relate reported changes in

⁸ As pointed out in CAIC's comments on our earlier draft (Appendix E), the present monitoring and disbursement system does not allow for an NDF to draw down funds "quickly" or ahead of schedule, unless actual lending to clients was greater than anticipated.

volumes of loans made with AID funds to rates of arrearage and default on these AID-funded loans.

An arrearage ceiling figure of 7% on annual new lending was established as a target in the Project Paper logical framework. In 1986, three of the seven NDFs reporting in that year had arrears over the 7% target rate. In 1987, all eight of the organizations reporting in that year were under the target. In 1988, three of the eight organizations reporting were up above the target. Specific countries with loan arrearages above 7% were as follows:

1986 - Barbados, Dominica, Grenada
1987 - None
1988 - Grenada, St. Lucia, St. Vincent.

Experience for government owned lending institutions in the Caribbean is that loan losses can average 25 percent or more. Microenterprise programs worldwide tend to have better records on loan collection than government institutions lending to larger clients, and this is certainly true of the NDFs. The World Bank staff has concluded that most well-run microenterprise projects can achieve default rate of ten percent or less. In the Eastern Caribbean NDF's, the following organizations exceeded a breakpoint of 11%:

1986 - Antigua, Barbados, WID
1987 - None
1988 - Antigua, Barbados, St. Vincent, WID.

It is interesting to note that operating costs were higher in 1988 than in 1987 in seven out of the eight organizations reporting for those years. Thus the data we have reviewed provide no evidence, on the surface at least, that the 1988 increases in arrearages and bad loans were attributable to reduced technical assistance or reduced attention to loan collection.

In its comments on an earlier draft of this report, CAIC finds an absence of evidence that poor loan quality is directly associated with rapid expansion of the loan portfolio:

The 1987, 1988 year-end reports and the June 1989 report reflected regional arrearages hardly exceeding 6%. And the NDFs with the highest arrearages did not owe that condition to portfolio growth rise.⁹

We wish to emphasize that neither our evaluation Scope of Work nor our field investigations covered the subjects of NDF loan losses or arrearages. However, in the absence of a definitive, data-

⁹ Memorandum of August 23, 1989 to Harvey A Lerner from Melvin Edwards, Regional Coordinator, SEAP, p 4.

backed, positive explanation of the 1988 upward trend in arrearages and defaults, we believe a red flag should be raised. The reasons for increases in 1988 are, at this point, largely conjecture. We believe the subject is worth further investigation. If the increasing volumes of NDF/WID loans have reached volumes which can be sustained/expanded only by lowering the portfolio quality, perhaps RCU's strategy should change.

In any event, CAIC should monitor arrearages and bad loan rates specifically for NDF/WID loans financed by A.I.D. funds as a matter of good practice. It is particularly important to understand the patterns and consequences of changes in AID-fund recycling by NDFs/WID as these institutions start to reduce the extent of their dependence on RDO/C. If effect, the patient will be in the recovery room if not on the operating table: the monitoring system should be measuring changes in the patient's condition as precisely as possible as flows through particular support systems are reduced or shut down.

F. SUMMARY ASSESSMENT

This Chapter has dealt with issues of financial performance and cost-effectiveness. In the past two years, CAIC has put a number of cost-reduction measures into effect. There doubtless is room for further cost saving, but the SEA project faces questions of the pace and balance of its spending and of the sustainability of its substantive programs which CAIC cost-cutting alone cannot solve. Nor can cost-cutting alone ensure the survival of the administrative mechanism CAIC has put in place to meet AID requirements. On paper, RDO/C's assistance to NDFs and SMEs ends in early 1991 along with its support of CAIC's core functions. It is most unlikely that other donors will pick up the costs of all these programs at that time. Nor is it likely that they would substantially subsidize core costs. The present evaluation reaches quite favorable conclusions concerning RDO/C's conduct of SEAP. What should CAIC's good performance mean in terms of future funding by RDO/C? Should CAIC and its staff continue to build up capabilities to serve AID because they are doing a good job? Or should they now be laying the groundwork for a major cutback because RDO/C funds are likely to be much reduced? Is there a middle way?

The search for answers to these questions takes us far beyond our evaluation Scope of Work and beyond the subject matter which we have examined in detail. Nevertheless, it is difficult to address the adequacy of the financial performance of the SEA Project and to make recommendations for the future without raising these questions early in our analysis.

As suggested in Chapter I of this report, the Economic/Financial analysis contained in the 1987 Project Paper Amendment took a

significant step forward by sizing up CAIC's financial future in terms of comprehensive scenarios. Four financial models projected funding and expenses from all sources, rather than limiting itself to RDO/C-funded activities alone. Although the conclusions -- given the assumptions of the analysis -- were reasonably realistic, the investigation stopped short of squarely facing the fundamental question which lies behind the issue of the "sustainability" of CAIC's core functions:

Does RDO/C want CAIC to sustain the capability to administer substantial and complex RDO/C programs beyond the current termination date of SEAP?

If the answer to that question is "clearly no," a major dismantling of CAIC core functions probably is in prospect, whether or not other donor funds are obtained by CAIC. Even if other donors were persuaded to contribute substantial untied, non-project-related resources, it seems unlikely that these donors would support the extensive administrative apparatus required to handle AID-funded projects. If the RDO/C's answer is "no" and CAIC nevertheless wishes to continue a significant commitment to development activities utilizing funds provided by other donors, management should shift its attention and priorities from the RDO/C "bird in hand" to the other donor "birds in the bush." Finding and securing new sources of funding for CAIC development functions should become its overriding concern. If the answer is "no," and RDO/C wishes to help CAIC to sustain its development activities, RDO/C should be encouraging CAIC to follow a "birds in the bush" strategy, rather than insisting on the exclusive primacy of its own program and project interests in the next two years.

If the answer to the fundamental question is "clearly yes," the search for other donors should continue, but becomes less urgent. The focus shifts to planning and executing a balanced program suited to the nature, magnitude, and "aging" characteristics of the RDO/C project elements assigned to CAIC. Those project elements can be characterized as follows:

1. Membership
2. Advocacy
3. Local Affiliate Development
4. Training
5. NDF/WID
6. SME
7. Export Promotion
8. Prospective RDO/C-funded functions

The eight project elements are presented in roughly the order of original entry and anticipated exit from the RDO/C-funded CAIC "portfolio". Each element can be regarded as being at a given point in its own "product cycle," a cycle which has "start-up," "growth," and "maturity" phases in terms of donor support.

Even though future AID funding can never be regarded as a certainty, a "clearly yes" answer to the fundamental question would mean that RDO/C and CAIC could work out a cost-effective program approach within the framework of a rational long-term financial strategy.

If the answer to the fundamental question posed is "maybe" (and we anticipate that it is), some set of reasonable working assumptions concerning the future still needs to be put forward. One of the recommendations of this evaluation is that RDO/C and CAIC collaborate in developing credible time-phased "pro forma" life cycle strategies for each of the functions funded through CAIC by RDO/C -- strategies to which neither organization may be able to commit itself at present, but which both agree represent reasonable courses of action if externally determined events prove favorable.

CHAPTER III
CAIC'S INSTITUTIONAL STRUCTURE
AND SERVICE DELIVERY

A. INTRODUCTION

This chapter discusses the evolution of CAIC into its current organizational structure, and assesses CAIC's success in implementing its objectives. Section B describes the background of the institutional changes which have taken place in the past two years. Section C reviews CAIC's organization and committee structure. Section D assesses CAIC's achievements in delivery of services to the private sector. Section E evaluates CAIC in its role as a project implementation organization. Individual assessments are contained at the end of Sections C, D, and E.

B. THE BACKGROUND OF INSTITUTIONAL CHANGE

1. Introduction

In September of 1987, CAIC initiated a new organizational structure. The reorganization reflected changing conditions and the reconciliation of a number of different recommendations and viewpoints. Apart from the individual viewpoints of the members of the reorganization team, the reorganization was influenced by the findings of AID audits, opinions of Mission personnel, advice of CAIC's consultants and a number of other considerations. Two such external influences which were taken into account in CAIC's reorganization are described below: the institutional thrust of the Mission's private sector strategy at the time and the findings of an evaluation of CAIC carried out in 1986-87 by Louis Berger International, Inc. The fundamental elements of the organizational changes made by CAIC are then summarized.

2. Two Positions Influencing Institutional Change

a. RDO/C's Private Sector Strategy Update

In early 1987, the Mission submitted to AID/Washington a "Private Sector Strategy Update." It proposed a new approach which may be summarized for present purposes as follows.

- (1) The Mission's Private Sector program was to emphasize institutional objectives ("strengthening the private sector" in the region) rather than direct economic

impacts (exports, jobs, increased productivity, balanced economic growth and the like).

- (2) Within the private sector, the Caribbean Association of Industry and Commerce and its Small Enterprise Assistance Project are treated as keys to putting this strategy in place.
- (3) Within SEA, National Coordinating Committees, formed in order to unify the business community, were presented as critically important to the success of the strategy.
- (4) RDO/C would react to the changing needs of the private sector and focus its own leadership role on building a structure of relationships that would enable the private sector to lead the course of economic development in the region.

The updated strategy brought the SEA project to center stage in the Mission Private Sector Program and treated the innovative institutional arrangements designed into the project (as distinguished from the economic impact of the services which it was to deliver) as the hallmark of the success of the Mission's Private Sector Program. This institutional emphasis was graphically illustrated in an Appendix to the Strategy Update ("Institutional Setting and Structure of RDO/C's Private Sector Program") which is reproduced in the present report as Figure III-1.

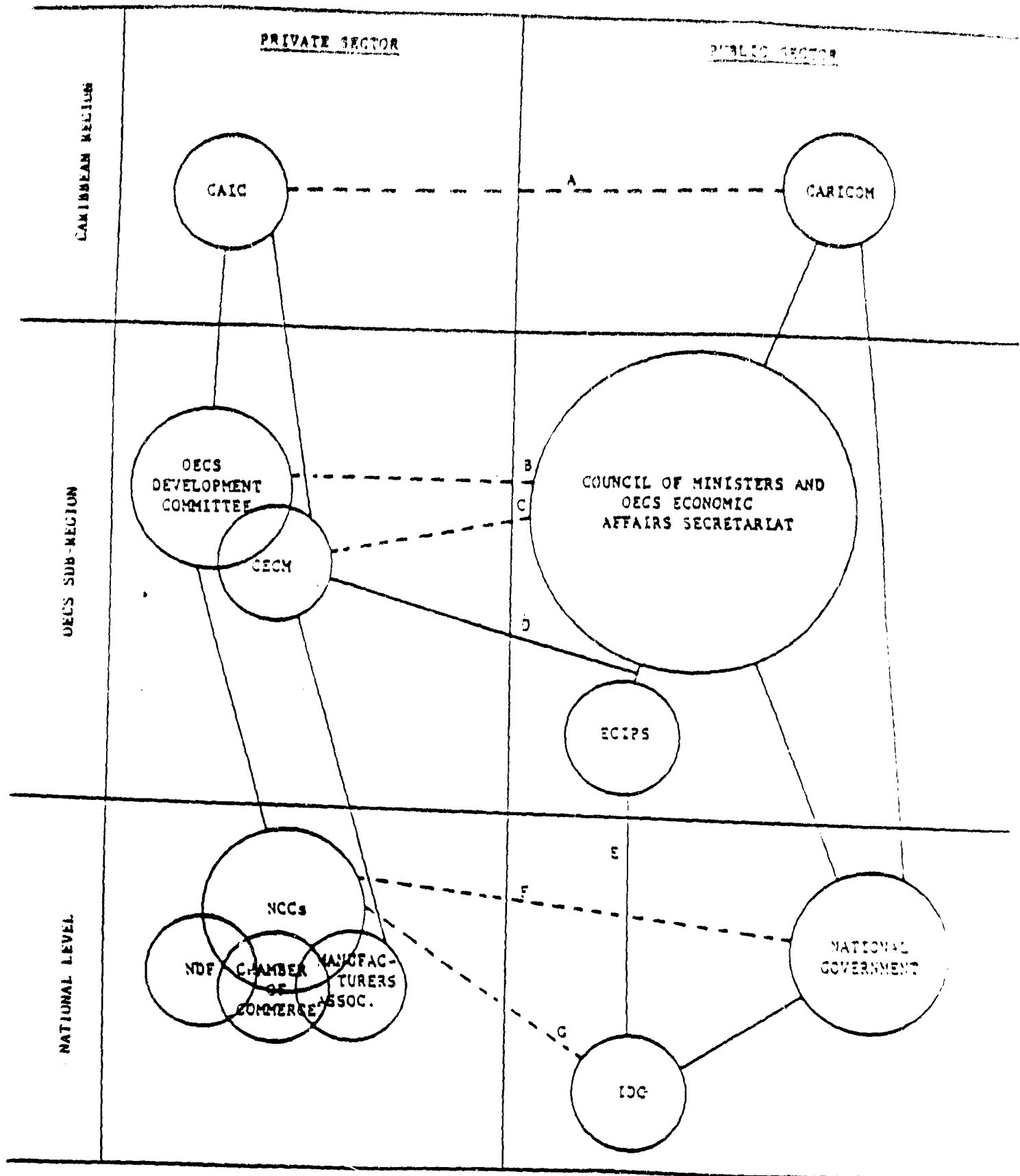
b. LBII Evaluation

In the Louis Berger International, Inc. (LBII) evaluation of CAIC carried out in 1986-87, a central theme was CAIC's uneasy and incomplete process of reconciling the respective requirements of advocacy and development functions. It found that the mixing of policy advocacy and development roles carried with it both problems and significant potentials. CAIC had done quite well on the advocacy side, but its development activities had shown mixed results. The evaluation identified problems in the areas of:

- o project design and implementation strategy;
- o organization and personnel;
- o membership promotion; and
- o self-sufficiency.

The LBII evaluation argued that these problems could be best addressed (and the opportunities best exploited) through approaches that acknowledge differences between advocacy and development

Figure III - 1
 INSTITUTIONAL SETTING AND STRUCTURE OF
 RDO/C'S PRIVATE SECTOR PROGRAM



NOTE: ——— ORGANIC LINKAGE
 - - - - - CONSULTATIVE LINKAGE

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constituencies and imperatives, and which made constructive use of the differences.

1. The Fundamentals of CAIC's Response

CAIC in the main responded positively and flexibly to the Mission's institution-building ideas and to evaluation recommendations. It moved to separate AID-funded development functions from those of advocacy, and vastly improved the routine administration of the AID grant. The suggestions made in the 1986 Evaluation have been in large part accommodated in a modified organizational structure.

Other considerations that governed the new organization structure were requirements to ensure that:

- o CAIC would provide a mechanism for consultation with and consensus among its members and affiliates on issues affecting the region's development, especially in light of growing concerns about the special problems of the sub-region i.e., the OECS);
- o CAIC was organized to permit easy access by the decision-making councils of the region as well as national and international decision-making councils; and
- o CAIC's internal organization was put on a more effective and efficient footing with respect to financial management, to allow for more careful apportioning of costs between baseline functions and development functions, and to satisfy the donor agencies.

In the context of these imperatives, in 1986-1987 CAIC commissioned a Task Force made up of Board Members, USAID officials and an external consultant. The Task Force, drawing on inputs from USAID, recommendations from the evaluation, and its own experience concluded that:

- o CAIC should differentiate its strategic objectives between those baseline private sector advocacy functions that any "chamber of commerce" should conduct on behalf of its membership and those development functions that can be carried out only with development funding. There should be a clear separation between CAIC "baseline" functions and "development projects" that CAIC could manage with the necessary "overhead" donor agency financing.

CAIC's objectives were restated as follows:

1. To foster the development of a vibrant private sector which would contribute to the economic development of the region.
2. To effectively represent the interests of the private sector on major public policy issues affecting the development of the region.
3. To provide technical assistance to local national private sector organizations within the limits of its resources.

In addition to these baseline objectives, the Task Force also proposed that CAIC should have the following development objective, depending on the availability of funding:

4. To assist development agencies such as USAID in the design and implementation of private sector development programs in the region.

The Task Force and Board concluded that this fourth objective, though important, should be considered a secondary priority relative to the more long-term private sector advocacy role of the organization, especially since CAIC can only play a role in this area with development funding from international development institutions.

Based on these strategic objectives, it was recommended that CAIC devise a new organizational structure that differentiates between its baseline private sector advocacy functions and its development activities. This division was deemed especially important since the skills that are needed to successfully conduct these two types of activities are considerably different. Figure III-2 presents the basic organization structure recommended for CAIC.

Baseline Activities

Figure III-3 presents the proposed organization structure for conducting the two baseline activities recommended for CAIC, private sector advocacy and local affiliate development.

The baseline program activities were to be supervised by the Executive Director, with two Program Managers (Private Sector Advocacy and Local Affiliate Development), and an Administration and Finance Manager reporting to the Executive Director. Overall policy direction and guidance on baseline activities would be provided by the Board of Directors.

It was initially recommended that specific board committees be set up to oversee activities being conducted in the baseline area.

Figure III - 2
Recommended Basic Organization Structure

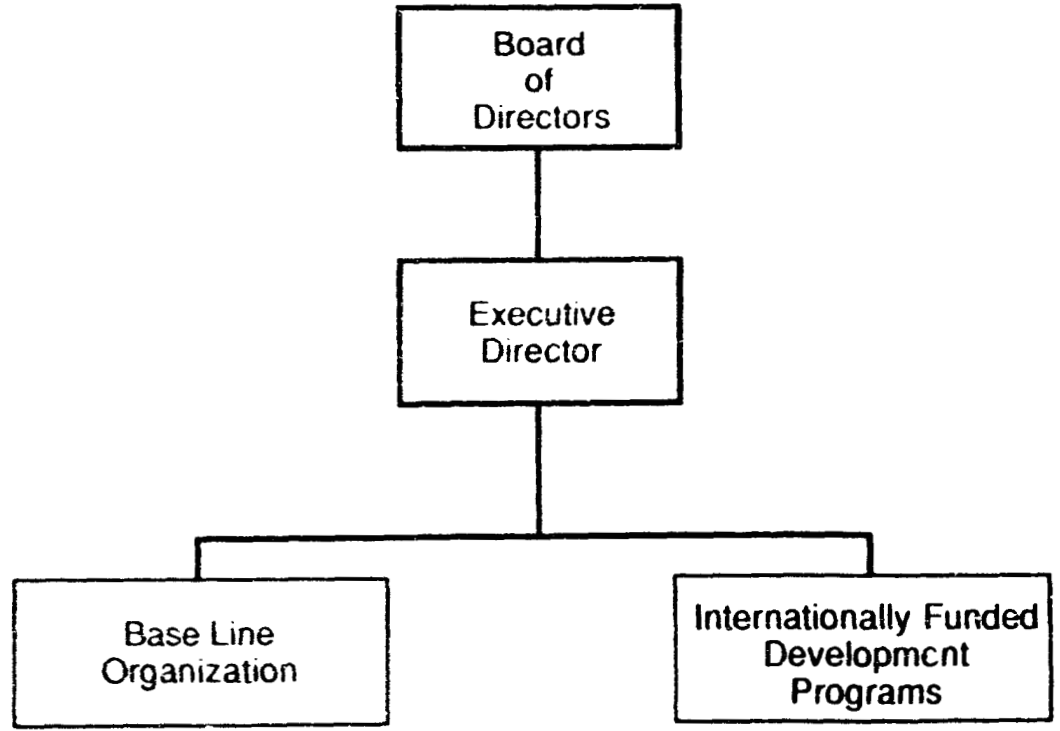
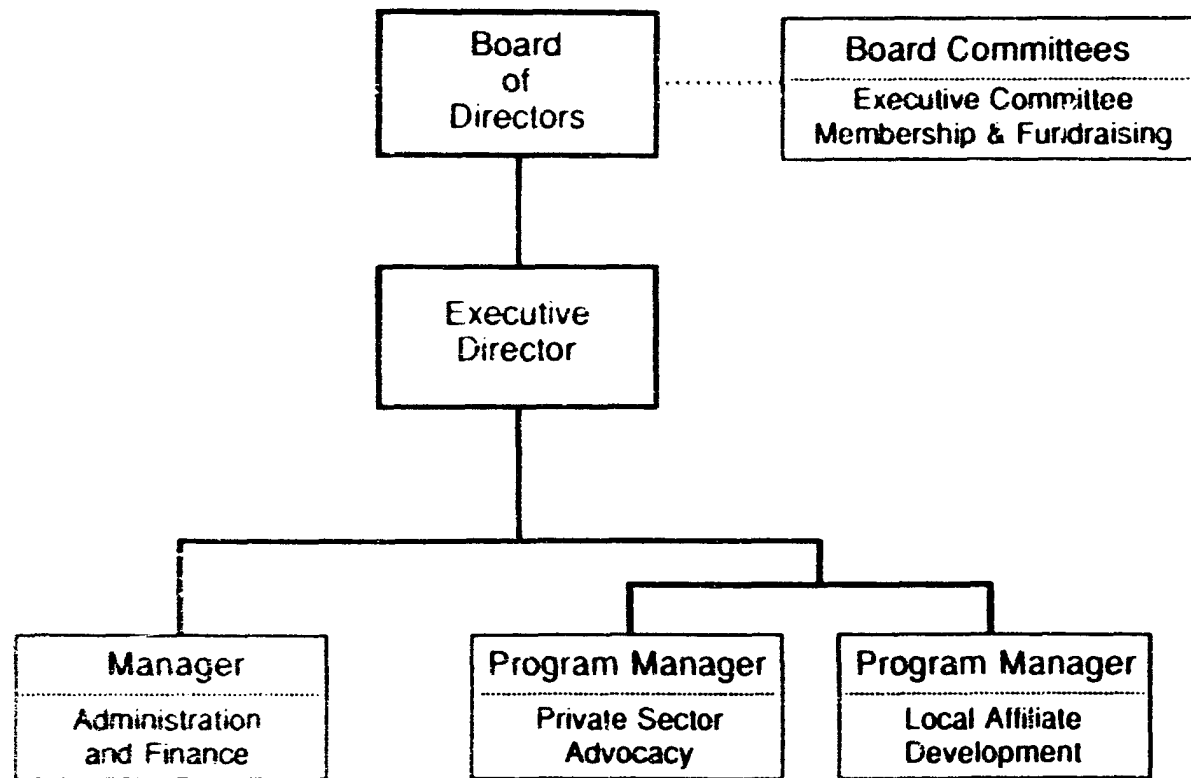


Figure III - 3

Recommended Base Line Organizational Structure



III - 3

However, given the difficulties of convening such committees due to the need to travel from the many different countries in the region, it was finally recommended that the Executive Committee have oversight responsibility for the major baseline programs. In addition, it was recommended that a Membership and Fund Raising Committee be established to spearhead the effort to broaden the membership that contributes to the organization.

Development Programs

The Task Force considered an approach to development programs that could encompass a wide range of the activities of RDO/C and the other development agencies concerned with assistance to the private sector.

Figure III-4 presents the proposed development committee concept. It was recommended that two development committees of the Board be established: one to oversee development programs focused on the OECS countries, the thrust of the major programs of the USAID Barbados Mission; and the second to oversee development programs focused on the broader Caribbean region.

It was recommended that both committees draw their members not only from the Board of Directors of CAIC, but also from other private sector representatives in order to broaden the participation of the private sector in the policy direction and guidance of the subject programs.

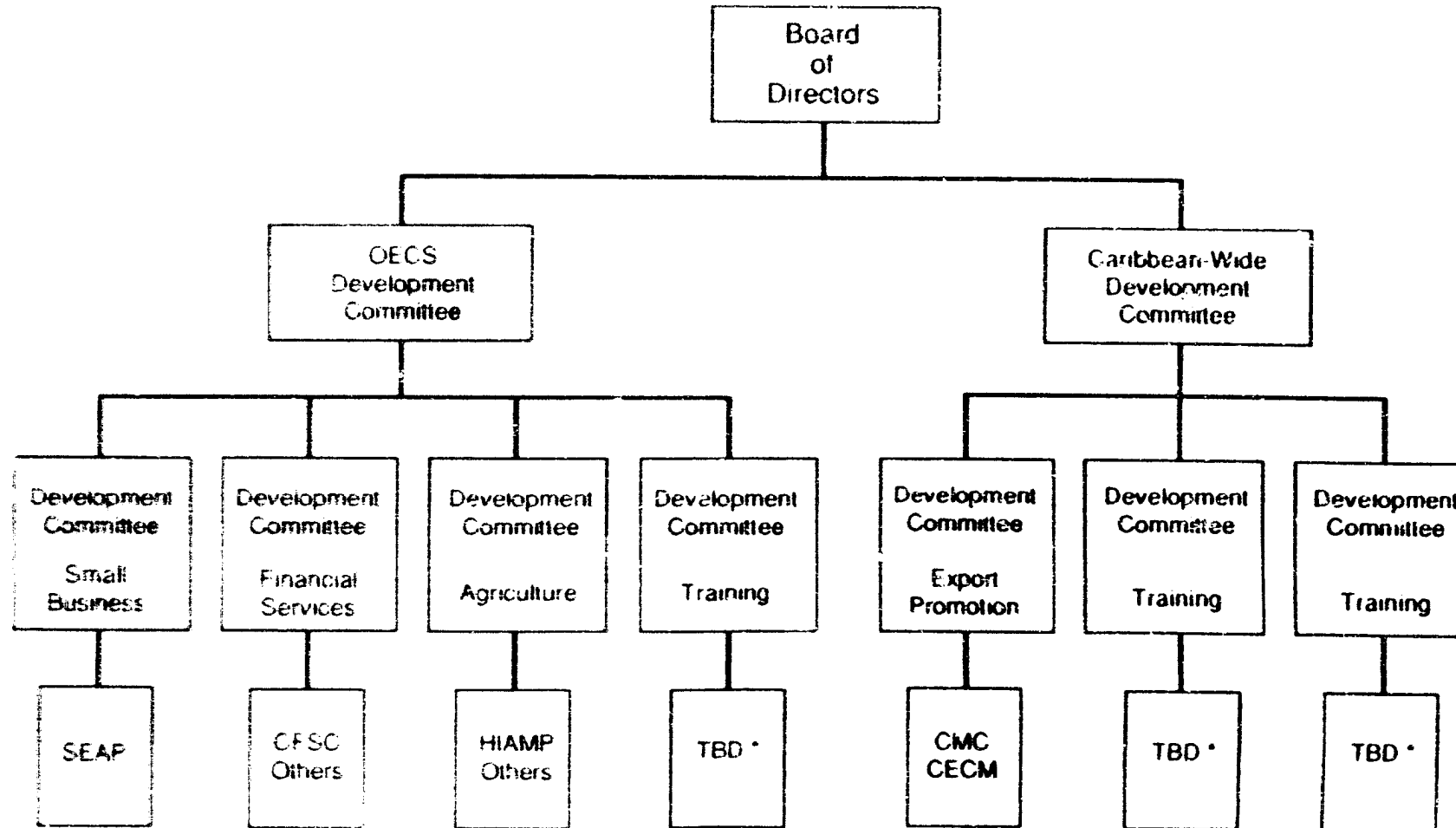
The two development committees were to have development subcommittees reporting to them, to provide policy guidance and direction to major programs in specific functional or sectoral areas.

CAIC was quite flexible in adjusting its structure in accordance with the suggestions of the Mission, the LBII evaluation, and its own outside consultant. The new CAIC organizational structure incorporated:

- o A committee structure that allowed for both Caribbean wide concerns (Caribbean-Wide Development Committee) and more particular OECS concerns (the OECS Development Subcommittee).
- o A better separation of "core" or "baseline" activities from "Project" activities, though there is room for improvement in this regard.
- o Broadened functional committees, at least in theory.

Figure 111 - 4

Recommended Development Organization Structure



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* to be defined

- o A Deputy Executive Director to allow the Executive Director more time for critical policy advocacy functions and major project activities.
- o Strengthened and upgraded the "Financial Management" function and capability of the organization.
- o A central Management Committee, theoretically enhancing intra-organizational communication and delegation.

Figure III-5 presents the revised organizational structure of CAIC as of September 1987.

C. THE PRESENT INSTITUTIONAL STRUCTURE OF CAIC

1. Introduction

This section reviews the structure of the Caribbean Association of Industry and Commerce, its Secretariat, and its committees. The section ends with a commentary on CAIC's institutional structure.

2. Structure of the Association and its Secretariat

a. Association Structure

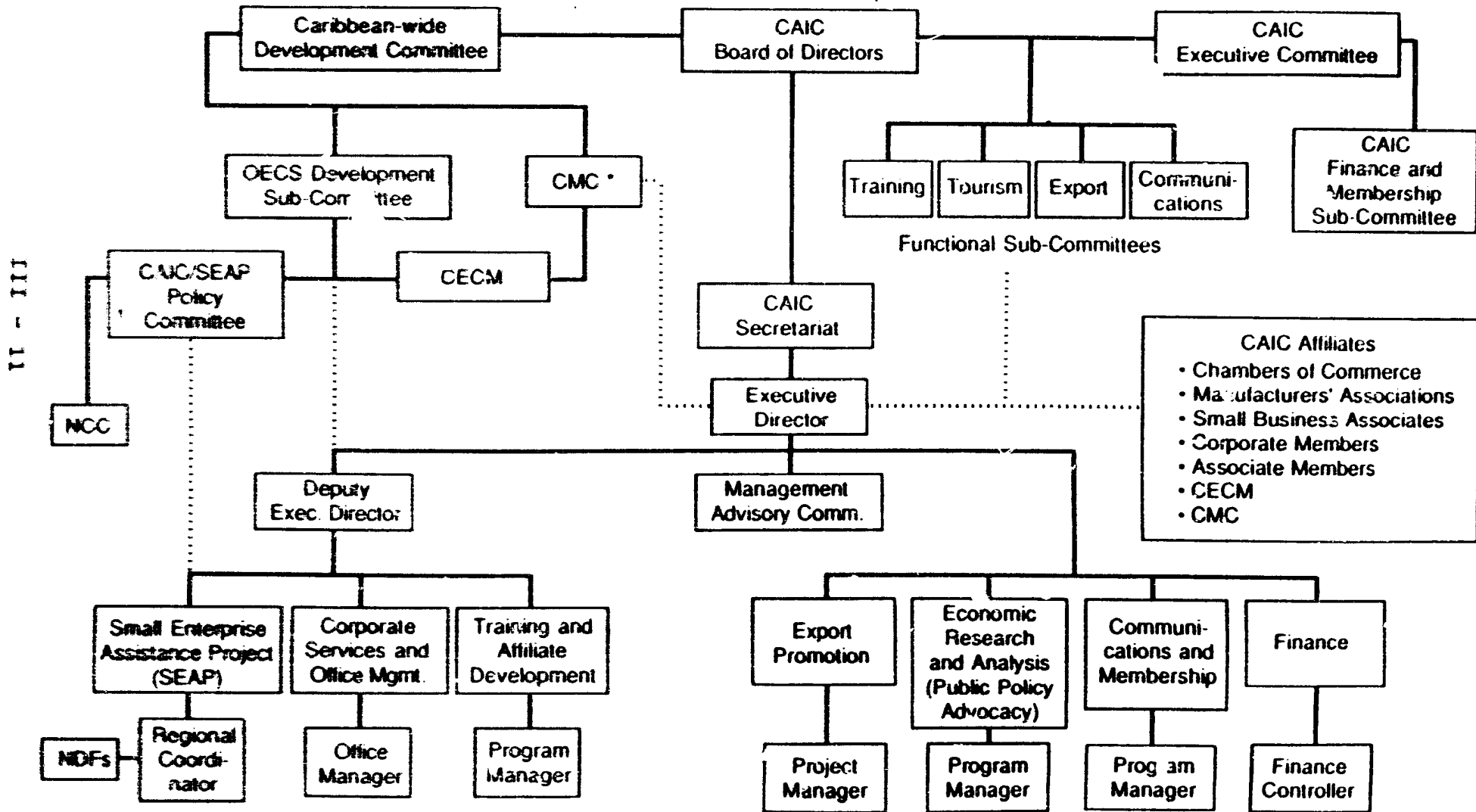
Article 24 of CAIC's Memorandum and Articles of Association dealing with the Association's Board of Directors states:

"The Board of Directors comprising not more than fifty (50) persons shall be constituted as follows:

- (a) The President;
- (b) Not more than three (3) Vice Presidents at large;
- (c) Not more than six (6) Departmental Vice Presidents;
- (d) The Immediate Past President;
- (e) The Secretary;
- (f) The Treasurer;
- (g) The Executive Director who shall be appointed in the discretion of the Board and be employed by them. He shall be the Chief executive and administrative officer of the Company. With advice and counsel of the President and of the Executive Committee, he shall be in charge of operations, organization and staff. He shall be an ex-

Figure III - 5

Caribbean Association of Industry and Commerce
Revised Organizational Structure - September 1987



* CMC - Caribbean Manufacturers' Council
NCC - National Coordinating Committee

CECM - Council of Eastern Caribbean Manufacturers
NDFs - National Development Foundations

III - III

officio member of all committees appointed by the Company; and

- (h) such directors as may be selected at the Annual General Meeting in accordance with Article 52".

Within the legal framework of Article 24(g), various administrative arrangements can be and are made by the Executive Director, with the knowledge and concurrence of the President and Executive Committee to facilitate the day-to-day running of the Secretariat.

b. The Secretariat

The Secretariat is headed by the Executive Director, who is assisted by the Deputy Executive Director. Their responsibilities are described below.

(1) Executive Director

The following specific functional areas report directly to the Executive Director.

- o **Economic Research and Analysis (ERAD)** - The main content of the work of this area relates to the Association's public policy advocacy, its inter-relationships with CARICOM regional issues and matters relating to CBI, LOME III, CARIBCAN and similar trade and investment schemes. At present the department has no manager and consists of the Executive Director and an Assistant.
- o **Communications and Membership Development (CMD)** - The work of this area is concerned with the vital subject of communications with CAIC members and with its several publics - in face to face meetings, via the press, radio, television and cassettes. In addition, this area has assumed responsibility for a formal, structured membership development program, with the advice and oversight of the Finance and Membership Sub-Committee. This department has no program manager, even though this is critical to servicing CAIC members.
- o **Finance - Finance Controller** - This area has overall responsibility for managing the day to day financial affairs of the Secretariat, including its cash flow projections; for ensuring compliance with all donor-related Grant requirements, including periodic returns; and for preparing and disseminating to the Board, staff and other relevant persons periodic financial statements, audited accounts, compliance audit reports and all other financial documentation. It has been professionally

staffed and is one of the most successful departments of CAIC. Its success has meant that the organization is now in a project management mode; "responsibility management" can take place with different program managers being able to allocate overheads and track costs on an ongoing basis.

The Department provides timely, adequate and relevant information and innovative advice for management decision making. Among the important improvements noted are:

- A stringent budgetary control system with a view to generating a net excess on the general fund.
- Development of improved cash flow forecasting techniques allowing for a month-by-month cash forecast.
- Improved capability of all management and accounting staff in the area of the financial control aspects of program management.
- Improved quality and timeliness of financial reports through computerization of all accounts, allowing up-to-date financial management records for CAIC managers, and improving the on-time submission of financial reports to USAID.

- o Export Promotion - Manager - An Export Promotion Manager is to be recruited when the IADB agreement is signed.

A Management Advisory Committee serves as an advisory body to the Executive Director. It normally meets weekly under the Executive Director's chairmanship. Its membership comprises the Deputy Director (who chairs in the Executive Director's absence), the three Program Managers (Communications and Membership Development, Training and Affiliate Development, and Economic Research and Analysis) and the Finance Controller. The Regional Coordinator of the SEA Project Unit is also a member of this advisory body.

This Committee reviews the work of the Secretariat on a weekly basis; ensures that all senior managers are informed of work being undertaken in all areas of the Secretariat; anticipates and resolves major operating problems; ensures coordination between departments and programs and seeks to interpret and administer Board policy in a uniform and objective way, in terms of the effects of that policy on Secretariat staff and work related issues. This Committee has addressed the need for more effective communication among senior managers in the organization.

(2) Deputy Executive Director

This is a post created within the Secretariat deriving principally from the expansion of the Secretariat's work, particularly in terms of developmental activities.

The Memorandum and Articles of CAIC, while not inhibiting the establishment of such a post, do not themselves specifically provide for it. The specific activities assigned to the post - apart from acting for the Executive Director when the latter is not in Barbados, are as shown in Figure III-5 (the revised organizational structure). Many - but not all - of the duties are on the developmental, as opposed to the core, side of the Secretariat's work.

Specific areas of responsibility assigned to the Deputy Executive Director are:

o Office Management - Manager, Office and Corporate Services

This is a new post which had been strongly recommended by a U.S. consultant who reviewed the work of the USAID audit team in 1986. This re-organization relieves the Finance Controller of the work relating to internal office management procedures and systems, which had grown along with the increase in the Secretariat's range of activities. In addition, this Manager has responsibility for actively promoting CAIC's existing Conference and support service facilities, as a source of revenue for the Association. This has been very successful.

o Training and Affiliate Development (TAD)

Essentially, the training activity is now of two kinds. First, the training related to affiliates, which includes training per se and activities, such as those funded under the new Local Affiliate Development Program, which have a technical assistance character specific to the needs of the individual Chambers and/or Manufacturers' Associations of the relevant OECS territories.

Basically, affiliate development is a CAIC 'core' activity, but given the restriction to the OECS of the current USAID-funded LADP program, and the organizational 'fit' with some of the other OECS activities (e.g. the SEA Project) falling under the overall supervision of the Deputy Director in the revised organizational arrangements, affiliate development is included in the Training portfolio.

Second is private sector training, including some SEA Project-related training, which is arranged, administered and evaluated within this area. CAIC's CARICOM wide training activities relating to the U.S. President's Training Initiative (USAID-funded, mainly through public sector channels) or to the work of the Regional Management Development Pilot Project (USAID-funded through University of the West Indies, Cave Hill), are largely being administered from this area.

o Small Enterprise Assistance Project

The SEA Project is discussed in detail in Chapter Five. This is a major USAID-funded project, aimed principally at medium, small and micro enterprises in the OECS countries and, to a lesser extent, in Barbados. Its implementation has positively affected the operations of various Chambers and Manufacturers Associations and their member companies, especially in the OECS countries. This is one of the reasons for which the Local Affiliate Development Program, although a core activity, falls under the same overall supervision as the SEA Project. The work of the NDFs in the OECS countries is also being administered and monitored as part of the SEA Project, as is the coordination of assistance to the National Development Foundations in the OECS countries and to the NDF and WID in Barbados.

There has been considerable collaboration and integration of effort between SEAP and TAD. Examples include impact assessment of SMEs; Affiliate and NDF training; CAIC's Private Sector Convention; CAIC's 1989 Outreach to Affiliates and Potential Members; and RCU's institutional development through the NDI program. Nevertheless, there does not seem to be as much interaction between the two departments as originally envisaged by the reorganization. Differences between the two departments in numbers of full-time professional staff and staff support personnel, as well as differences in their respective missions, inevitably affect the volume and nature of interactions between them.

3. CAIC's Committee Structure

Taking into account RDO/C plans for a private sector strategy based on institutional development (as vetted by its Task Force), CAIC expanded its committee structure. The roles of the principal committees are described below.

a. The Caribbean-Wide Development Committee

The role of this key Committee is to look at the whole range of developmental initiatives, from whatever source and however funded, which impact on and seek to involve the private sector in CARICOM.

The mandate of the Development Committee is to discuss the relevance of such initiatives, and where necessary to try to change the emphasis of specific programs, to minimize duplication and the consequent waste of scarce external aid resources, and to recommend areas of potential specialization to given donors. The Committee also is to advise on the format and content of major programs and tries to ensure that the package of developmental programs, not only makes sense to and for the private sector in the region but maximizes, insofar as is practicable, the overall effect of the several initiatives being taken by various donor agencies.

The Caribbean Manufacturers Council (CMC) theoretically reports to this Committee. In order to facilitate this process, the President and First Vice President of the CMC theoretically serve on the CARICOM Committee.

The Executive Director is supposed to be the main Secretariat link with work of this Committee. Because of the plethora of Committees and the fact that most of the members of this Committee are on the Executive Committee, the work of this Committee in fact is subsumed under the Executive Committee. Its weakness was the inability of CAIC to involve non-CAIC Members. While it is conceivable that the Caribbean environment of the 1990s will call for such a Committee, its function may well be formally divested to the Executive Committee.

b. The OECS Development Sub-Committee

The role of this Sub-Committee is similar to that of the broader CARICOM Committee in scope. However, because the major part of USAID Grant funding to CAIC is restricted for expenditure in the OECS countries -- and, to a lesser extent, in Barbados -- it was thought necessary to have a Sub-Committee concentrating on those developmental initiatives which were designed to impact solely or mainly on the private sector in the OECS countries.

The Council of Eastern Caribbean Manufacturers -- an OECS manufacturers' group now dormant -- falls within the purview of this Sub-Committee. The CECM President and First Vice President are theoretically drafted as members in the OECS Development Sub-Committee.

The Deputy Executive Director is the main Secretariat link with the work of this Sub-Committee. The OECS Development Sub-

Committee, which was intended to oversee such activities as CFSC and HIAMP never took on these oversight functions, and is not now functioning. A strong and active SEAP Policy Committee appears to be well able to handle whatever is left of the Development Sub-Committee's OECS mandate.

c. The Functional Development Sub-Committees

These are, as their names imply, the functional sub-committees of the CARICOM Development Committee. Their membership is drawn from MDC and OECS countries alike. Their main focus will be to look at developmental initiatives from the perspectives of the particular functional focus (e.g., Training), and to seek to ensure that those specific initiatives make sense for the individual countries or the sub-region or the region, as the case may be. An associated objective was to have been to define the varying assistance needs of the private sector in the region in terms of the function involved, to ensure that the donor funds spent in these functional areas address real problems efficiently, promote private sector profitability and productivity, and contribute to national and regional development goals. These committees are at present dormant, but the structure allows for the organization to call them up when needed. A number of private sector persons with recognized expertise and good 'track records' in the various functional areas can be called on to serve on these Sub-committees, whether or not their companies are CAIC members.

Theoretically, the respective Sub-Committee Chairmen were to be members of the full CARICOM Committee.

d. The CAIC Executive Committee and its Finance and Membership Subcommittee

These committees are both chaired by the President. They are the original and basic Board Committees that directly oversee the management of CAIC. The Executive Director is the main Secretariat link with the work of both of these bodies.

e. The SEA Project Policy Committee

The role of this Committee is to be the CAIC's Board monitor, overseeing the SEA Project and the work of the SEA Project unit within the CAIC's Secretariat. The Committee seeks to ensure that policies and programs which constitute the SEA Project are in accord with CAIC Board objectives and goals.

The Chairman of this Committee is an OECS private sector person from St. Kitts/Nevis. The majority of the Committee's members are from the OECS private sector, although not necessarily from CAIC

member companies or affiliates. This committee essentially serves as the OECS Sub-Committee. The Regional Coordinator of the SEA Project is the main Secretariat link with the work of this Sub-Committee.

4. Assessment

CAIC has made an earnest response to recommendations for improvement of its institutional structure. The organization is now a leaner, more coherent, and more cost-effective unit than it was in 1986. The dissonance between CAIC and RDO/C, so noticeable in LBII's prior evaluation, has been substantially reduced if not entirely eliminated. But the objectives of the reorganization have not been entirely fulfilled. In some areas, additional progress is attainable. In other areas, the objectives themselves deserve re-examination.

Viewed with the benefit of hindsight, the committee structure generated by the reorganization was over-elaborate, requiring more time, energy, and resources than in fact were available within the business community. The Caribbean-Wide Development Committee has not worked out well. Among the factors presumptively responsible are (1) the dearth of development funds on whose disposition it could advise, (2) the lack of an effective backstopping mechanism for the Committee within CAIC, and (3) the handling of CARICOM policy matters by other influential committees. The OECS Policy Committee also is active; its functions in fact are being carried out by the SEAP Policy Committee. The SEAP Policy Committee, backstopped by CAIC and concerned with a program distributing significant resources, appears to be a solid success.

The Caribbean business community appears to respond well when a Committee structure is administratively well-supported and when its members can influence important decisions that affect the welfare of their communities and their businesses. It is not energized by development or policy concerns unattached to resources or real-world impact. We believe that the expanded committee structure has accomplished its most fundamental objective -- to reach out to the new constituencies which the SEA Project brought to CAIC. We think that the CAIC committee structure can now be safely reexamined with a critical eye. Duplicative committees should either be consolidated or eliminated. Moribund committees should be revitalized or put to rest. CAIC should consider formally transferring the functions of the Caribbean-wide Development Committee to the Executive Committee and eliminating the OECS Development Sub-Committee.

D. CAIC'S ACHIEVEMENTS IN DELIVERY OF SERVICES TO THE REGIONAL PRIVATE SECTOR

The main services that CAIC has delivered to the regional private sector fall into four distinct categories. The first two (policy advocacy and local affiliate development) are seldom directed to the needs of members individually, but rather serve their interests generally. The second two (training/technical assistance and other services) can be targeted to the needs of individual firms.

1. Policy Advocacy Services

Policy advocacy is a "service" of which members are aware, but which often is not directly linked to their day-by-day performance. The CAIC's performance of policy advocacy functions is discussed in Chapter IV. Our assessment of these functions, on balance, is quite favorable.

It is particularly noteworthy that many of the small and medium business persons interviewed in the OECS countries were aware of CAIC's policy advocacy activities on the regional level and in some cases on the national level, and were quite positive about these activities. They saw policy advocacy as necessary to maintain a 'positive' business climate in the Caribbean, and felt that CAIC was playing a useful watchdog role for the private sector in the regional councils.

2. LADP Program

The LADP program has had mixed success in supporting the Chamber affiliates of CAIC. CAIC's Training and Affiliate Department has:

- o Provided assistance with planning three year programs that permit affiliates to access USAID LADP funds;
- o Met with managers, Boards of Directors and functional committees to ensure that the appropriate programs are being implemented; and
- o Facilitated the coming together at the Miami Conference of ten Executives of CAIC affiliates (providing opportunities for exchanges among CEOs as well as training in management of Chambers, etc).

The Evaluation Team found some concern among affiliates in the OECS that there needed to be more emphasis placed on Affiliate Development and support. It was pointed out that there was no full time staff within CAIC dealing with the affiliates; as the Chambers begin to face more turbulent environments and faster staff

turnover, CAIC needs to give thought to a more dynamic on-going strategy of support for the Chambers in such areas as:

- o Computerization;
- o Local policy advocacy inputs;
- o Information on trade, markets and other subjects of interest to the members of their Chambers.

In fact, about 35% of the time of the two-person staff of the Training and Affiliate Development Department is spent on LADP activities. From the point of view of serving these felt needs, a strong case can be made for assigning a full time staff member to service CAIC affiliates. The underlying question, however, is whether and when the Chambers and their members are prepared to support the costs of some or all of the services they wish to have provided to them by CAIC.

The 1987 SEA Project Paper Amendment stated:

At the conclusion of this three and a half year amendment, it is expected that .. [CAIC's] affiliates will be self-sustaining entities.'

We have not received a detailed breakdown of LADP expenditures (budgeted at \$269,500 for the project period under Project Agreement Modification No. 9). However, we understand that about 20% of the budget is expended on Technical Assistance (provided by TAD mainly in the fields of project design and strategic planning) and 80% goes to affiliates in the form of grants. Of the grants, we understand about 25% is used for human resource development (including financing trips by business persons to the Miami Conference) and 75% is used for other purposes, mainly to purchase inputs for income producing and meritorious community projects.

There does not appear to be a long-term plan for shifting the costs of LADP from AID funding to the CAIC membership at large. Given the socio-economic characteristics of most of the affiliate members, we believe it is difficult to make a case for continued subsidization through LADP, particularly for functions not related to training and to human resource development. Some of the latter activities well may be justifiable on grounds other than local affiliate development in itself.

As we have suggested in the previous chapter, "challenge grants" conditioned on increases in the levels of support which affiliate members provide to their own organizations, could be used to bring

' Small Enterprise Assistance Project Paper (July 31, 1987), p. 1.

this program to a conclusion on a positive note. However, given multiple demands on limited RDO/C resources, we basically agree with the position taken in the Project Paper Amendment. LADP is a suitable candidate for early marketplace tests.

3. Training and Technical Assistance to Members

The Training and Affiliate Development Department of CAIC is responsible for (a) delivering training and technical assistance to CAIC members; (b) developing monitoring and evaluation services for donor agency training programs; as well as (c) providing services for the LADP program.

In the area of Training and Technical Assistance for its members, we note something of a retreat from the relatively high profile that existed in 1986. A degree of reorientation apparently has gone hand-in-hand with growth in revenues and tighter management. SEAP and other public sector funded assignments have claimed a greater share of the unit's attention in recent years.

The monitoring capability which the Department is building up will provide a service for which public sector clients are likely to have the greatest demand.

CAIC staff have developed plans for the Training Department to become self-sustaining, perhaps profit-making. Fundamental to these plans is the willingness/ability of members to pay full cost for high-quality services and the willingness of the donor community to pay the full overheads that attach to services which CAIC's training or organization provides to them. A very significant proportion of the department's costs are now covered by core funding and by SEAP grants (72% in 1987; 86% in 1988). The transition to a more self-sufficient operation will be a difficult and challenging one.

4. Other Services

CAIC distributes economic reports (the Manchester Study) to its members. Its revenues from this service were about \$6000 in 1988.

CAIC derives some revenues from business center services (conference room rental and associated services). These services are available to the general public.

In the past, CAIC provided a computerized information service on export and joint venture opportunities to its members (CBIN). Another such service may be initiated in connection with the export promotion work funded by IADB. The Training Department is planning to hold a "computer awareness" seminar for managers during 1989. If CAIC were to develop significant in-house expertise in

computerization, it could develop a service that should be highly marketable to its members.

II. CAIC AS A PROJECT IMPLEMENTATION ORGANIZATION

Our assessment of CAIC's implementation of the SEA Project is contained in Chapter V. That assessment is favorable. We focus here, in a more general way, on those characteristics of the CAIC's performance and structure which bear on its suitability as an organization engaged in the implementation of development projects.

1. Basic Capabilities

CAIC's ability to comply with AID regulations and meet AID implementation requirements once was a serious area of deficiency. In the past two years, CAIC has moved decisively to improve its project implementation capability:

- a. A Deputy Executive Director has been appointed with overall responsibility for the major SEA project and administrative "core" CAIC functions.
- b. CAIC's operational and strategic planning process has become more project-oriented, as suggested in the 1986-87 evaluation and provided for in the USAID/CAIC Amended Agreement of July 1987. A copy of CAIC's Work Plan for Project Year 1989-90 casts the work to be done within the SEAP project and CAIC's Core departments in terms of specific outputs and targets within specific budgetary inputs.
- c. A reporting and control system has also been put into place to facilitate the project management orientation of the organization. The quarterly reporting system allows for the early identification of targets which are not being met and identifies the reasons for under-performance.
- d. A more project-oriented budgetary and financial management system has been developed which allows for the tracking of project costs.
- e. Several members of CAIC Staff have undertaken relevant professional training programs.

2. Compliance Audits

Improvements in the performance of the Finance Department have been dramatic. What was once an area of critical weakness has become

a source of strength. It has been possible for AID to reduce the requirements for financial (statutory) audits from twice a year to once a year. CAIC has been highly responsive to the findings of AID-mandated direct cost and compliance audits, which have found progressively fewer and less serious problems. The compliance audit did identify -- and CAIC corrected -- an error in allocation of rent to SEA. Beyond this, there remains some minor sparring over the details of AID requirements for segregating project funds: a perennial topic of discussion between AID and its implementing organizations. The Association's auditors concur in our judgement that the organization's financial control performance and handling of AID requirements have vastly improved.

3. Power-Sharing and Operational Management

In his comments on a previous draft of this report, the SEAP Regional Coordinator states:

...the treatment of organization leadership and project implementation tend to focus unduly on the Executive Director and the Deputy Executive Director of CAIC. The critical roles of Project Manager- SEAP and the Programme Manager - TAD were suppressed ...

The sharing of powers and division of labour concepts... stop short of also emphasizing the needs for a clear role and function delineation between "Senior Manager" for policy oversight .. and the Project or Programme Manager for operations or implementation.

In our June, 1987 evaluation of the PSIAP project, we said the following concerning CAIC's operating style:

... the principal concern of a donor should be with the setting of objectives and with the measurement of performance, not with whether the style is formal or informal, hierarchical or collegial, pressurized or relaxed, harmonious or confrontational. If the work is performed well, if the organization is meeting reasonable performance and financial targets, and if it is complying with its obligations with respect to administrative procedures, that should be the end of USAID's concern. A successful management should be given the latitude to choose its own way of getting the job done. On the other hand, if CAIC management is falling significantly short of reasonable performance targets, it should not be accorded latitude either by its own board or a donor...

While professional organizations in the United States and elsewhere are generally moving toward flexible, interactive, self-motivating, matrix-type approaches to organizational structure, this phenomenon is by no means universal. As

described [earlier], the private sector management in the Caribbean has been characterized by a "top-down" management style, and CAIC has been no exception. Each of the previous evaluations has commented on this phenomenon. Nonetheless, it bears noting that an organization with important functions in the area of advocacy is not likely to operate in the same way nor with the same ambience as one whose sole function is delivery of development services. However amiable an advocate's exterior appearance may be, he or she primarily is a participant in an adversarial process--a fighter whose dominating objective must be to win. Successful advocacy organizations usually are meritocracies, in which considerations of competence, hard work, and success predominate over other values. Whatever their size, management structure, and outward appearance, they are almost invariably places where internal struggles over power, status, and resources are in evidence. There is a substantial formal and informal literature on this subject, centered on the American legal profession....

It would be a mistake if an overriding concern with [consensus] were to deprive CAIC of its fighting trim. Differing types of functions call for differing styles of management, even when the two types of functions report to a single person. Development functions typically can be delegated and lend themselves to collegiality. Advocacy begets tight control under the leadership of a single capable commander.

However, the fact that managing advocacy and development functions within the same organization is a complex task does not justify managing them poorly. Although the present evaluation judges PSIAP, on balance, to be a success, this judgement does not justify a continuation of the management deficiencies which have occurred in the past. Nor does it justify a backward-looking complacency. Management needs to set goals for the future which are commensurate with its past accomplishments -- and it needs to develop resource strategies, staffing patterns, and management styles which are appropriate to those future goals.

CAIC should continue the efforts which it initiated in the past to involve middle managers in the development of organizational policy, and should also examine areas where delegation of authority and responsibility can be increased. There are two distinct reasons for the continuation of this effort. The first, and most important, is that development of middle management capacities are important to the present efficiency and future capabilities of the organization. A second consideration is that RDO/C is an organization that places considerable emphasis on the development of middle management consensus in the making of decisions. It is almost

inevitable that RDO/C's judgments of CAIC's overall management effectiveness will give a heavy weight to the way in which CAIC's middle managers are utilized.

Two years later, it is quite clear that CAIC has three energetic and highly competent middle managers: the SEAP Regional Coordinator, the Training and Affiliate Development Program Manager, and the Financial Controller. We think that CAIC can and should build on the skills of these managers as well as those of other middle managers who may enter the organization. In part, the process should be one of delineation of responsibility and, as Mr. Edwards puts it, "the sharing of powers and division of labour" between top and middle management. Equally important, in our view, is what we would term the sharing of opportunities and of challenging possibilities among middle managers.

The likelihood that CAIC will be able to meet hard tests of sustainability and retain its capable personnel will be much enhanced if each manager is given reasonable latitude to build a creative future for herself or himself within an understood organizational framework. In our view, CAIC's training professionals have potentials for creative contributions to human resource development in the Caribbean that as yet have only been partially tapped. We also believe that, as the urgencies of overcoming past deficiencies recede, the personnel of the Finance Department can be used for a wider variety of professional tasks.

The activities of each of the three strong middle managers have heavily oriented to RDO/C-supported activities than to CAIC's baseline functions. It is perhaps significant that, in a period of financial pressure, those middle management positions most closely associated with baseline functions (Economic Research and Analysis; and Communications and Membership) have remained vacant. It is not yet clear whether CAIC's baseline "market" (its members) has finally "spoken" on its willingness to sustain middle managers for these functions. It is conceivable that the ultimate answer may be negative, but it certainly would bode better for the continuity of CAIC as a business association if the answer were affirmative.

4. The Evolution of CAIC's Organization

As we have seen, the basic structure recommended by the CAIC 1986-1987 Reorganization Task Force drew a clear distinction between CAIC's baseline organization and internationally funded development programs, which would report separately to the Executive Director. The baseline functions were identified as "Administration and Finance," "Private Sector Advocacy," and "Local Affiliate Development" (Figure III-3 above). The recommended development organization structure covered a range of RDO/C programs in the OECS states and of Caribbean-wide development programs, explicitly

including export promotion (Figure III-4). The planned organization assumed a level of program activity and financial support which in fact did not prove to be forthcoming.

The organization which has emerged in fact has divided the main responsibilities between the Executive Director and the Deputy Executive Director under the overall direction of the Executive Director. As shown in Figure III-5, development functions (SEAP and Training) have been directly assigned to the Deputy along with the baseline function of Office Management (combined with Corporate services, which also may be regarded as a baseline function) and Affiliate Development (combined with training). The Executive Director is directly responsible for the Finance Department [many of whose activities have been undertaken to comply with RDO/C administrative requirements, Communications and Membership (a baseline function), policy advocacy (a baseline function), and Export Promotion (a development function, as defined by the 1987 Task Force)].

The SEAP Regional Coordinator states:

In my view there is an umbilical linkage between Membership Growth and Affiliate Development, likewise between Finance/ Administration and Corporate Services. The integration of these into single units would also generate needed savings as well as earnings. The SEAP experience has demonstrated the efficiency of the integrated approach to advocacy and communications.

If LADP functions were shifted to the Communications and Membership Development Department and Corporate Services/Office Management were shifted to Finance that would place all baseline functions under the direct supervision of the Executive Director. If the Export Promotion Project were to be placed under the supervision of the Deputy Executive Director that would locate all development functions (with the exception of AID-oriented administrative support functions residing in the Finance Department) under the direct supervision of the Deputy Executive Director. The result would be to substantially separate baseline functions from development functions in line with the spirit of the 1987 Task Force Recommendations.

Nevertheless the idea of shifting Export Promotion--and particularly the IDB-funded Regional Export Promotion Project (REPP) to the Deputy Executive Director is one to which the Executive Director takes exception. His main points include the following:

1. The REPP has been the subject of multi-party negotiations between IDB, CAIC, the CARICOM Secretariat and the CDB over the last two-and-one-half to three years. The reporting relationship has been written into legal documents concluded

with international agencies and with the Coordinator retained by CAIC for the project.

2. The REPP is a logical outcome of CAIC's policy advocacy work over several years in the area of export promotion which the Executive Director has supervised. That export promotion policy is constantly evolving, as a result of the inter-play between CAIC and its private sector constituency on the one hand and the Caribbean governments and the public sector on the other, largely through the CARICOM Secretariat. CAIC's ERAD and Finance Departments, which report to the Executive Director, also will be involved in REPP.
3. The Deputy Executive Director will be closely informed on a regular basis on the project's progress and involved in key meetings related to its implementation. The Executive Director intends to delegate specific aspects of the project's supervision to him, while retaining ultimate control of its budget and of any proposed changes in its strategic direction. Any such changes would need to fit into the overall export policy promotion framework which CAIC is advocating at any point in time.

We certainly do not think that CAIC should renege on the arrangements which it has made with IDB, CARICOM or others, or that the Executive Director should withdraw from his commitment to creative involvement in the project. The substantive, geographic, and institutional characteristics of REPP do lie closer to policy advocacy and the interests of CAIC's traditional constituency than do most of the OECS activities which CAIC is now carrying out for RDO/C. It is also true, however, that some of these characteristics were present in the investment and export promotion functions carried out by the Economic Development Department (predecessor to ERAD) contained in the original PSIAP project. The PSIAP promotion functions did not prosper in the Economic Development Department and were brought to a conclusion. Some of the reasons have little in common with the present circumstances of REPP, but the experience hardly proves that policy advocacy and export promotion functions blend naturally and easily.² The current literature on effective export promotion in developing countries draws clear distinctions between (1) changes in government policies and international arrangements among governments which have the effect of increasing exports and international trade; (2) catalysts within the private sector which stimulate exports; and (3) services and subsidies provided by government-sponsored export-promotion institutions. These functions certainly can be inter-related by proactive management, but they are by no means identical or naturally compatible.

² See assessment on page 124, Evaluation of the Private Sector Investment Assistance Project (June, 1987)

From our vantage point, there are two main reasons for eventually placing the REPP in the same organizational framework as other CAIC projects financed by development agencies. First, we think that the distinction between baseline functions and internationally funded development programs made by the 1987 Task Force was fundamentally sound. Although no one can claim to possess an infallible crystal ball, we think that the likelihood that advocacy and development functions can be sustained under the same roof will be greatest when there is a reasonable degree of separation between them. It is very difficult for any manager, particularly a Chief Executive Officer, to march simultaneously to the respective drumbeats of private sector constituencies and a public sector clients. We are concerned with implications over the long haul of having both of CAIC's top executives assuming primary responsibilities for development agency projects.

Second, we think that a Chief Executive Officer usefully can supervise a project during its formative or critical periods, without inevitably "taking ownership" of that project or category of projects on a long-term basis. As REPP's project history unfolds, the opportunities for creative input will may become less central and the requirements for routine development project administration and the execution of the mechanics of export expansion (making exports happen) may become much more important than policy change in itself. At that point, the interests of all parties may be well served by informal or formal transition in basic responsibility.

Our opinions on the wisdom of separating supervision of baseline functions from that of projects funded by development agencies are subject to three caveats. First, we assume RDO/C's sustained use of CAIC as an implementing organization beyond the termination date of the current SEA project. If RDO/C funding were to cease in early 1991, little would remain other than the bare bones of CAIC's baseline functions (absent USAID funding of administrative functions) and REPP. If it were clear that such an unhappy scenario were about to unfold, our views concerning a desirable organization structure for CAIC would change.

Second, it should be understood that our views are presented as opinions emerging from a relatively brief and essentially retrospective evaluation. We have not carried out the kind of thorough, participative, future-oriented institutional study on which recommendations for changes in organization should be based. Nor have we studied REPP in detail. Our purpose here is to flag issues which we believe to be pertinent to CAIC's sustained future performance as a project implementation institution. Those issues can best be worked out over time with the benefit of more attention than can be given to them in the present report. They need not be settled in a day and, ultimately, they should not be settled by consultants.

Finally, we suspect that the choices before CAIC management may be more those of style, timing, and degree than those of basic direction. The practical results of delegation of specific aspects of the REPP supervision to the Deputy Director (the Executive Director's formulation) may not turn out to be all that different from the ones in which the Executive Director involves himself mainly in the early, high-level, and creative aspects of the projects funded by development agencies and leave supervision of the execution of these projects to the Deputy Executive Director (our formulation). Our underlying concern is that, at the end of the day, each of CAIC's main functions should be able to stand on its own two feet, and that CAIC's fundamental management strategies should be directed to this end.

5. Other Areas for Continued Improvement

Despite CAIC's significant improvements and generally laudable implementation of the SEA project, we did discover some soft spots and opportunities for improvement. Work Plans and some key reports have been delayed well beyond the due dates. The Evaluation Team found that some key information in data base was not up to date in a form suitable for release to us, and that information on some pertinent subjects were not included in that data base. Future enhancements of the SEA Project monitoring system should add key data series particularly on issues related to sustainability. RCU attributes time lags in updating the data base to its own staff constraints. However, we have the impression that RCU has devoted more of the time of its senior professional staff to reviewing, editing, and revising information input submitted to it than would normally be expected of a well-functioning monitoring system. As RCU adds personnel and continues to focus on increased staff efficiency, additional time should be devoted to keeping the data that is fed into computerized monitoring systems up to date and hopefully to improving the quality of data submitted from the field.

6. Assessment

CAIC has been effectively re-structured to:

- a. Set up broader mechanisms for consulting with its various constituencies and publics through its expanded committee system;
- b. Separate the Finance and Office Administration functions;
- c. Use an internal Management Advisory Committee to encourage a "team" approach to management, better communication, and more effective problem solving;

- d. Put in place financial management systems and personnel to facilitate a Project management format and more effective financial management and reporting;
- e. Delegate some functions of the Executive Director by retaining a strong Deputy;
- f. Separate policy advocacy and most baseline functions from development project functions; and
- g. Achieve cost savings by reducing staff and combining functions.

CAIC's performance as a project implementation organization has not been flawless and improvements should continue. On the whole, however, that performance has been most impressive.

While the organization has an improved structure both in concept and in practice, it has not yet completely demonstrated an intention to integrate implementation of development functions. Nor has it yet, in our opinion, fully harnessed the complementarity in the talents of the Executive Director and the Deputy Executive Director.

As we see it, the great strength of the Executive Director lies in his access to government and business leaders in the region, his reputation for integrity, his creative vision, and his ability to influence important decisions by public sector organizations. The assets of the Deputy Executive Director lie in his capacities as an administrator and implementer, his tenacity in building toward the achievement of defined objectives, and the trust that he has built among development institutions in the Eastern Caribbean.

Funding issues and particular project histories aside, we do believe that there is a persuasive case for a division of labor on development projects in which the Executive Director establishes early relationships with new clients and deals with high-profile issues during the course of the project, and the Deputy Executive Director is made responsible for project implementation.

Such a division of labor can be applied productively to SEAP itself. The sustainability questions currently confronting the NDFs and WID in our judgement represent "high profile" issues in which the Executive Director's involvement could be highly beneficial. From RDO/C's point of view, his contribution to efforts to find alternative funding for NDFs/WID, particularly through IADB and CDB, might make an important difference. From CAIC's point of view, however, the Executive Director's services represent a scarce, high-value resource. RDO/C may wish to consider some form of compensatory arrangement for his involvement on a high-leverage basis that provides a significant financial incentive to CAIC to utilize his time in this way.

CAIC's Communication/Membership Department, which has a direct relationship to CAIC's strategy for fund raising, lacks a manager. Last year CAIC increased its membership revenues substantially while significantly reducing the costs of the Communications and Membership Department. CAIC has set ambitious fund-raising goals for the present year, which it has not yet achieved. Recognizing that CAIC's leaders play the most decisive role in determining whether the year's objectives will be met, it remains to be seen whether the present department staffing will provide sufficient support for a membership recruiting drive that will produce the revenues CAIC needs.

CHAPTER IV

CAIC'S ADVOCACY OF POLICY CHANGE

A. INTRODUCTION

This chapter examines CAIC's role as a policy advocacy organization. It first explores the importance of policy advocacy as a CAIC function and CAIC's role within the region. It then briefly reviews the positions the Association has taken and methods it has used to press its views with respect to Caribbean regional and trade policy issues, national policy issues, and extra-regional market access. The chapter closes with a summary assessment.

B. CAIC AS AN ADVOCACY ORGANIZATION

The newly elected President of CAIC, Mr. Roy Collister, noted in his inaugural address in May 1989 in Guadeloupe that the key role of CAIC was 'public advocacy'. CAIC needs to shape and unite the views of the region's private sector so that they may speak with one voice to the regional governments. He argued that, while CAIC's development projects were very important and demonstrated CAIC's commitment to the economic development of the region, it's role as a regional private sector advocate was indispensable. This is particularly important in view of the pressing need to integrate regional economies.

In the Evaluation Team's view, CAIC has an important role to play in policy reform advocacy within the various countries from which it draws it's members. CAIC's role in policies affecting internal policies of many countries is restricted except when they impede economic relations across countries. This is best illustrated by examples. A decision by a government to impose an income tax surcharge may be opposed by CAIC as inimical to the interests of the private sector, but it's role in lobbying against such increases has to be minimal. However, the lead has to be taken by the local private sector groups. CAIC can help them with studies or research materials. However, in the case of non-tariff barriers impeding trade between CARICOM countries, CAIC can play a key role by its access to all the governments concerned in the dispute as well as the local private sector groupings. This does not mean that CAIC avoids issues which may be considered internal matters to be dealt with by the national private sector bodies. CAIC is often requested to do so by the Chambers of Commerce or Manufacturers Associations in the countries, particularly when a respected outside voice such as the Executive Director of CAIC may have an impact. CAIC has historically lobbied for Human Rights in Grenada and Guyana as well as in other countries. CAIC has acquired such a respected status

that its President and Executive Director have direct access to Heads of Government and Ministers. This access is a measure of the respect CAIC has earned since its revitalization in the early 1980's.

CAIC's role is premier at regional forums and in representing regional private sector interests at extra-regional forums. Thus, CAIC has been active at the CARICOM level. CARICOM includes the Caribbean Community of thirteen member countries - Antigua & Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Christopher & Nevis, St. Lucia, St. Vincent & the Grenadines and Trinidad & Tobago. Among them, Bahamas is not a member of the regional common market. Regional policy is decided by the CARICOM Heads of Government (CHOG) and the CARICOM Council of Ministers. The former meets at least once a year and the latter more often. There is a CARICOM Secretariat (CARISEC) based in Georgetown, Guyana. CAIC is a member of the Joint Consultative Group (JCG) of the CARICOM Council of Ministers. The JCG also includes the Caribbean Confederation of Labor (CCL). CAIC has been lobbying for observer status both for itself and CCL at the CARICOM Ministerial Meetings.

The perception of CAIC among small and medium-sized businessmen of the region has improved since the evaluation of the Private Sector Investment Assistance Project which LBII carried out in 1986-87. In the OECS territories, CAIC is no longer viewed as an organization exclusively devoted to the established larger business elite. SEAP has provided services to SMEs and in doing so has managed to change their perception of CAIC and its importance to smaller businesses. CAIC itself has changed through more frequent contact with the SMEs. This change is reflected in management attitudes and thinking. The CAIC Board still remains dominated by the old elite. Until the composition of the Board changes significantly, most SMEs will be unable to view CAIC as their organization. CAIC's present board members have made significant contributions to the re-establishment of CAIC as an effective regional private sector organization. Nevertheless, in the politically conscious and class conscious world of the Eastern Caribbean, CAIC would be viewed more favorably by civil servants and politicians if it included more SME representatives on its Board.

C. PRIVATE SECTOR ADVOCACY: REGIONAL AND TRADE POLICY ISSUES

CAIC's role in CARICOM as the recognized spokesman of the region's private sector makes CARICOM its principal forum for private sector advocacy. CARICOM has been moving towards economic integration even though the pace has been much slower than desirable. Further economic integration of the region is essential if the economies of the region are to become mature. At present the markets even in the biggest CARICOM member countries are small. Efficiencies of

scale are difficult to achieve in a wide range of products. Thus, CARICOM producers are unable to be competitive in most export markets with the exception of specialized products. Within CARICOM, CAIC has been advocating the following issues: free intra-CARICOM trade and the CARICOM Enterprise Regime (CER) which CAIC views as a first step towards genuine regional integration.

The Evaluation Team travelled to nine CARICOM countries including all seven LDCs and two of the MDCs. The consensus of private sector opinion was that CAIC's principal advocacy role was to represent the private sector at regional fora as the CARICOM countries slowly move towards a genuine common market. Almost all interviewed by the Evaluation Team were of the opinion that CAIC had played an important role thus far in liberalizing trade flows within CARICOM.

1. CARICOM Trade Issues

Intra-regional trade¹ declined between 1981 and 1987 from a high of over three billion Eastern Caribbean (E.C.) Dollars to just over E.C.\$1.6 billion. For the January to September period in 1988 trade rose to E.C.\$1.4 billion up from E.C. \$1.2 billion for the same period during the preceding year (1987). This improvement follows a decline which can be attributed to the impact of the global recession on domestic economies. An important local factor was the collapse of the oil-led boom in Trinidad.

Many countries took defensive postures which affected not only extra-regional trade but also intra-regional trade. Many countries were in technical violation of the CARICOM treaty but none of them raised the issue. Different governments were also in violation on different occasions. CAIC played an important role during this period by bringing up individual violations of the regional treaties to the respective governments.

The respect gained by CAIC for its role in arbitrating and lobbying for freer movements of trade within the Caribbean was reflected in an unofficial approach to CAIC's Executive Director by the Ministers of Trade and Industry of Trinidad and Tobago and of Barbados to arbitrate a trade agreement between the two countries. The agreement was brokered in a series of meetings held under CAIC Chairmanship and including key public, private and diplomatic figures from both countries. The consensus agreement was incorporated into a summit communique issued by Prime Ministers Barrow and Robinson. This 'consensus' was eventually 'sold' to other CARICOM governments and in October, 1988 the CARICOM Council of Ministers' meeting endorsed the 'consensus' and was brought legally

¹ Measured as the sum of domestic imports from other CARICOM countries and exports to other CARICOM countries.

into being. In effect, apart from twenty-one items with respect to which the OECS countries have been granted a special derogation or exception, all other products are supposed to move freely within CARICOM.

There was one loophole in the agreement. This concerned 'rules of origin'. In some instances, these rules have been arbitrarily used to reduce the flow of free trade. Thus, even apart from the items on the special derogation list for OECS countries, impediments continue to be placed on the free flow of trade between CARICOM. CAIC is playing a leading role in resolving individual cases raised by members. It is ideally placed to do so, having representation in all countries and having an Executive Director who has more or less direct access to all heads of government within the region. As these problems continue to occur, CAIC is continuing to lobby for the establishment of a genuine common market or indeed a single market within CARICOM.

Currently, the focus has shifted to achieving agreement on three areas. These include (i) revised CARICOM rules of origin, (ii) determining a common external tariff for countries exporting to the CARICOM area, and (iii) harmonizing of fiscal incentives in the region. CARISEC has been periodically consulting with CAIC in these matters. The proposed rules were presented to the CARICOM Council of Ministers meeting in Jamaica towards the end of May, 1989. They were unable to reach agreement. Two full days are to be set aside for these issues during the CARICOM Heads of Government meeting (CHOG) to be held in Grenada towards the end of June, 1989.

2. The CARICOM Enterprise Regime

The CARICOM Enterprise Regime (CER) is an intra-governmental treaty originally drafted in the 1970's. The treaty was signed by several governments in the early 1980's but it has yet to be ratified by at least four governments which is an essential pre-condition for treaties of this kind to be legally effective. The CER would recognize enterprises satisfying certain criteria as special CARICOM Enterprises (CEs). Once recognized, a CE would have an easier time in moving funds and labor across national boundaries than companies incorporated within particular jurisdictions now do.² As part of its policy to encourage the free movement of capital, goods and skills within CARICOM, in 1986 CAIC took the initiative to have the

² CE status could be advantageous to entities such as the Agricultural Venture Trust (the organization through which RDO/C's High Impact Agricultural and Marketing Project funds are invested in the OECS states) some of whose resources are subject to taxation as they are used to purchase the stock of local firms.

Treaty up-dated, re-signed and re-ratified. Consequently, in 1987 the CARICOM Council of Ministers agreed to CARISEC holding an inter-governmental meeting to re-negotiate the terms of the Treaty.

The meeting was held in early 1987 at CAIC's Secretariat. This was the first time that a CARICOM inter-governmental meeting had been held in a private sector office. A re-worded treaty was agreed upon subject to ratification by the CARICOM Council and by CHOG. The new Treaty accorded the CARICOM Secretariat, the Caribbean Development Bank (CDB) and CAIC the status of non-voting members of a Board of Authority set up to administer the Treaty. This was the first time a regional private sector organization had been given representation as well as equal status with official organizations such as CARISEC and the CDB.

The revised Treaty was approved and signed as well as ratified by the required minimum of four governments. It is now legally in existence, but only one preliminary meeting of the authority has been held and the Caribbean Enterprise Regime is yet to be operational. Once operational, it will be a major step to the much desired objective of freeing the movement of all funds, goods, and skills within CARICOM.

3. Other CARICOM-Wide Issues

CAIC has launched an initiative with the Caribbean Hotels Association (CHA) on the broad policy aspects relating to tourism within the region. This initiative is focused particularly on the interface of tourism with agro-processing and light manufacturing. CAIC is also engaged with CARISEC on discussions on the development of an appropriate export promotion policy for extra-regional exports. CAIC has just set up, with Inter-American Development Bank funding, an Export Promotion Project focusing on three sectors - garments and apparel, furniture and food processing. A wider dialogue on the broader issues of constraints to exports with CARISEC is expected to start later in 1989.

D. PRIVATE SECTOR ADVOCACY AT THE NATIONAL LEVEL

CAIC has also been pursuing issues at the regional level which cannot be strictly called CARICOM or regional issues. These include taxation, privatization, export promotion zones and commercial law reform. This last is being pursued in association with the Caribbean Law Institute under USAID funding. In all of these issues CAIC has been working closely with national private sector organizations.

Most of these issues are the bailiwick of the national private sector organizations. Yet CAIC's support is recognized by the national bodies as an important spur to progress in these areas. The Evaluation Team interviewed various private sector entrepreneurs and organizations. The finding was that most of them viewed CAIC's study "A Review of Taxation in Ten CARICOM Territories" an invaluable aid to their lobbying efforts to reduce taxes. There is reason to believe that the study played a lead role in reduction of personal and corporate taxes in Barbados, Trinidad & Tobago and several OECS states, though this is impossible to prove. Also, USAID has played a key role in the OECS states in helping implement tax reform.

Privatization is another target area for CAIC advocacy. CAIC held a Privatization Workshop in Jamaica in 1987. It was reasonably well attended. An attempt to hold a similar workshop in Trinidad and Tobago was recently postponed on the advice of an otherwise supportive Minister, who argued that the time was not yet ripe. Privatization has been gaining ground all over the region even in Guyana. CAIC expects to continue its efforts to mobilize support for privatization in the region. These efforts provide valuable support for similar policy dialogue being conducted by the IMF, World Bank and other donors.

Another area for CAIC involvement is export processing zones. Jamaica has launched a major initiative on this within CARICOM. Trinidad and Tobago are also considering the issue seriously. CAIC has been asked to help. The Chamber of Commerce and the Trinidad and Tobago Manufacturers Association, through whom CAIC would work on these essentially national matters, have noted that they believe that the best time for a major private sector initiative would be late in 1989 or early 1990.

The law relating to corporate affairs, particularly issues of intellectual property rights and foreign private investment, remains outmoded in various countries across the region. CAIC is working with the Caribbean Law Institute (CLI), which with USAID funding is conducting serious law reform efforts across the region. CAIC is coordinating private sector input into this project.

CAIC is often seen by businessmen as a supplement to -- and occasionally as a substitute for or alternative to -- involvement with their national level business organizations. In Grenada, a committee of businessmen (both CAIC members and non-members) reported to evaluators that CAIC had assisted them immeasurably in both policy analysis and policy advocacy during times of political turbulence. They were of the view that CAIC was in a unique position to assist the Government in resolving problems posed by a current split in leadership. In Trinidad, the view was expressed that a national umbrella organization for business associations was not required in that country because CAIC was able to perform any needed inte-

grating functions which could not be worked out locally from a distance. In at least one case, a business person who had become alienated from his local business association saw CAIC membership as an alternative form of participation in business community activities.

E. LOBBYING FOR EXTRA-REGIONAL MARKET ACCESS

CAIC has represented the regional private sector at various forums to lobby for trade preferences for the region. The three important forums are: Caribbean Basin Initiative (CBI), CARIBCAN (with Canada) and currently Lome III negotiations which govern EEC trade with ACP (Africa-Caribbean-Pacific) countries. The lobbying focuses not only on securing market access but also on simplifying procedures.

CAIC's success in recruiting the Chambers of the French Departments of Guadeloupe³ and Martinique has given it access to privileged information on the developments in Europe towards the Single Market in 1992. The European market is very important for Caribbean rum, bananas and sugar. CAIC has been kept informed of developments and has sometimes been able to provide valuable intelligence to CARISEC.

CAIC has been lobbying the U.S. Congress for Phase II of the Caribbean Basin Initiative. While direct private sector lobbying is not possible in the European case, CAIC has been taken as an observer by CARICOM to various discussions in Brussels concerning Lome III. CAIC has also discussed desired reforms in CARIBCAN with CARICOM governments and representatives of the Canadian government.

The regional private sector views CAIC's role in lobbying for extra-regional trade preferences as very valuable. There is indeed no other suitable spokesman for the region's private sector.

F. PERCEPTIONS OF CAIC

An organization may perform a great many tasks quite effectively and still be perceived as ineffective. The Evaluation Team took special care during their field visits to identify how CAIC was perceived by various businessmen in the private sector, both members and non-members of CAIC. The Evaluation Team also solicited opinions of other private sector organizations. The overall

³ This association is an important breakthrough in view of the isolation which the French Departments normally maintain vis-a-vis neighboring countries. Guadeloupe even hosted the 1989 Annual General Meeting of CAIC.

view was found to be extremely favorable. This was not only true in the states and territories where CAIC delivers development services but also in areas where CAIC's role is primarily one of advocacy.

The private sector in the Eastern Caribbean views CAIC as an essential organization that must continue to exist. The key reasons identified by the regional private sector for the favorable assessments of CAIC include the following:

- (i) CAIC has freer access to governments than other private sector organizations and can therefore easily represent private sector views to officials.
- (ii) CAIC has brought together the region's private sector at a time when intra-CARICOM trade faces some major hurdles. CAIC has helped to remove many of those hurdles.
- (iii) CAIC has provided valuable research materials on the economic costs of high taxation. These materials have provided effective ammunition to local private sector organizations in lobbying for tax rate reduction.
- (iv) CAIC is the only vehicle through which the region's private sector can make its views known, during negotiations towards further economic integration within CARICOM.
- (v) CAIC is also the only possible representative for the private sector during discussions and negotiations involving extra-regional economic relations.
- (vi) CAIC is perceived as being an honest and relatively efficient organization.⁴
- (vii) The stature of CAIC's Executive Director and the Association's Presidents assures CAIC access to any inter-governmental forum in or out of the region.
- (viii) CAIC has been delivering useful development services.

⁴ This perception of financial efficiency appears to be of relatively recent origin. It is probably a consequence of the changes in CAIC's overhead management.

- (ix) CAIC is a representative of the old business elite in the region and the "little guys" are not really part of it.
- (x) CAIC sometimes usurps the role of national private sector groupings.

One local affiliate suggested that CAIC should use the local affiliates as its representatives in the territories, i.e. decentralize operations. Such decentralization however leaves no real role for firms which have joined CAIC themselves. They may consider that, under such a decentralized system, they are represented through their local organization and stop paying the extra dues. This would effectively be a return to the system that prevailed before CAIC was revitalized a decade ago, and could lead to a collapse in CAIC's finances endangering all its achievements to date.⁵ At the same time local affiliates have brought up an important issue which needs to be addressed. CAIC needs to do more to keep local affiliates informed of all that is happening so that they may in turn pass on the information so small and medium enterprises who are not direct CAIC members but are members of the local affiliates are informed. This role should not be left to the Directors from the individual countries. CAIC should provide the local affiliates with minutes of board meetings (except for certain confidential or personnel matters).

Another weakness in the CAIC structure that was noted by our interviewees is that CAIC has become less visible. This view was paradoxically voiced by people who thought that CAIC had achieved more successes recently than it did before. They felt that word of CAIC's good work is not being spread as it was in the past. This particular view is probably quite correct. It reflects in part the cut-backs in CAIC headquarters staff as required by budgetary pressures and the need to make CAIC self-sufficient in its core operations.

LBII's evaluation of the PSIAP/CAIC Project in 1986-87 noted that there was tension between CAIC's role as an organization delivering development services, particularly in the OECS states, and its role as the private sector spokesman for the region. The past two years have seen these tensions become muted. Two formerly competing sets of interests within the organization and, to a lesser extent, within its constituencies appear to have found a modus vivendi. The smaller and medium businesses see CAIC primarily as a service delivery organization, while the larger businesses see CAIC's

⁵ Even if CAIC continues to receive donor support, it's own revenue base will become very weak and may sap the organization's present vitality.

primary role as a spokesman for private sector interests in the region.

G. ASSESSMENT

CAIC is the most important advocate for the private sector in the region, particularly when issues cut across national boundaries. CAIC could in the future become an even more important organization as CARICOM develops into a true common market or even becomes a single market.

CAIC has been lobbying for free access to extra-regional markets but at the same time it has been less than enthusiastic at opening up regional markets to outsiders. There are three factors at play in the dynamics that determine CAIC's position on trade. They include:

- (i) CAIC members who are manufacturers desire protection;
- (ii) CAIC members who are traders prefer to get their goods at the lowest price from any source;
- (iii) regional governments who earn revenue from tariffs and at the same time want to diversify their economies away from agriculture.

Even though CAIC has a great many trading houses among its corporate members, the general stance on trade has been protection from extra-regional manufacturers and free trade within the region. The dangers of such a policy is that it generates non-competitive manufacturing industries. The long run aim should be to eliminate protectionism at all levels. This would allow healthy manufacturing industries to develop in the region, and would improve consumer welfare.

Recently, CAIC has moved to a less protectionist stance, partly at the prodding of its members in the distributive trades. Many regional manufacturers have also become more competitive following the devaluation of the Trinidad, Jamaica and Guyana dollars. Other manufacturers have been converting their operations to 807 and CBI-type off shore operations, and do not require protection. CAIC should be able to move towards a completely free trade approach without losing the support of many members.

Looking to the future, the arguments for a beyond-the-PACD continuation of RDO/C's assistance to CAIC's policy include the following:

- (1) CAIC exerts an influence on the policy positions taken by the private sector in the region which is both cons-

tructive and realistic: it nudges consensus toward the enlightened end of the spectrum without losing its constituencies.

- (2) CAIC is best established in this area of activity, has its greatest comparative advantage, and therefore it is the area in which U.S. assistance results in the highest "policy bang for the buck."
- (3) There is some evidence that cost-cutting has already prevented CAIC from realizing the full public relations potentials of its accomplishments.

The arguments against beyond-PACD continuation include:

- (1) CAIC has substantially achieved the policy advocacy institutional objectives at which it aimed at the beginning of AID's assistance to its revitalization effort: respect for the private sector within the region and access to national and regional decision-making bodies.
- (2) Policy advocacy is the CAIC function most directly related to the needs of the most affluent members of the Caribbean business community, and hence at a level most appropriate for control by market forces (members' willingness to pay).
- (3) From the start of the revitalization effort, CAIC has had the announced objective of making its business association functions financially independent of donor support. Policy advocacy is the area in which such independence is most immediately attainable.

Given the presence of significant constraints on RDO/C's total funding of its programs and the current absence of any new RDO/C policy thrust in the region in which CAIC has a key role, the case for extended RDO/C funding of policy advocacy and membership functions seems less substantial to the Evaluation Team than the case for assistance by RDO/C for CAIC development functions.

CHAPTER V

THE RCU AND ITS SERVICES TO THE SME CONSTITUENCY

A. INTRODUCTION

In the first three chapters of this report we examined the SEA Project with a wide lens, taking into account CAIC's business association functions, RDO/C-funded "core activities" (originating in the Private Sector Investment Assistance Project and merged into SEA in 1987) and the functions contained in the original SEA Project itself. Chapter IV narrowed the focus on policy advocacy, the business association function which is of greatest importance to CAIC's traditional constituency, much of it located in the More Developed countries of the Caribbean. The present chapter also has a relatively narrow focus. It concentrates on the RCU's services to its SME constituency in eight countries in the Eastern Caribbean.

As we have seen, the original SEA Project consisted of two main program elements assigned to the Regional Coordinating Unit within CAIC: (1) a new SME component, providing training, technical assistance, and innovative financing to small and medium scale enterprises in the OECS territories and Barbados and (2) a microenterprise component, continuing the provision of RDO/C grants for loans and administrative support to National Development Foundations and WID.¹ The focus of the present chapter and of our evaluation Scope of Work is on the first of these two elements, the SME component. However, since the relative positions of the SME and microenterprise components of the SEA Project have been in a state of flux during the first three project years, this chapter starts with an assessment of the factors to which the shift in emphasis can be attributed.

¹ The SEA Project provides credit and management support for the micro business sector in eight Eastern Caribbean Islands. Funds are provided for: (1) loans to new and established micro enterprises; (2) loan processing costs; (3) technical and (4) managerial support for NDF clients; and (5) administration support. The SEA Project also provides training for the staff of these institutions and acts as a catalyst in their development through seminars. It collaborates with ECODEF (their umbrella body), and participates in dialogues with international agencies concerning sources of NDF funding. In March 1988, the Montserrat NDF was established as a window of the St. Patrick's Credit Union.

Section B identifies the factors which resulted in the shift of program priorities. Section C assesses the provision of technical assistance and training to SMEs. Section D describes the National Development Institution (NDI) mechanism for service delivery and the selection of NDIs in each country and examines the effectiveness of this system. Section E examines the progress of the projects pilot Working Capital Fund in Dominica. Section F describes the functions and operation of the Regional Coordinating Unit. Finally, Section G provides a summary assessment.

B. FACTORS AFFECTING THE SHIFT IN SEA PROGRAM PRIORITIES

1. Introduction

The design of SEAP in the original Project Paper emphasized the (SME) component of the project and assigned a less important role to the NDF portion of the program.² The SME component sought to reach a previously unserved private sector target group which lay between the NDF-aided microenterprises and CAIC's core constituency of larger businesses. As discussed in Chapter II, the original financial plan for the project envisioned that roughly 36% of CAIC's \$10 million budget for SEAP would be spent for the SME program as compared with under 22% for NDFs/WID. The revised budget contained in the March, 1989 Modification #9 to the Project Agreement (the currently operational budget) showed a dramatic change:

SME	\$	2,323,233	20.91%
NDF/WID		4,913,357	44.22%
NON-ALLOCATED		2,276,108	20.49%
CORE COSTS		1,597,302	14.38%
TOTALS	\$	11,110,000	100.00%

The projection which we made in Section B-6 of Chapter II (based on the currently operating financial dynamics of the project) points toward a conceivable end-of-project budgetary outcome along the following lines:

SME	\$	3,080,277	23.92%
NDF/WID		6,143,318	47.70%
NON-ALLOCATED		2,057,533	15.98%
CORE COSTS		1,597,302	12.40%
TOTALS	\$	12,878,430	100.00%

The projection shows the SME component exceeding the current budget by about \$757,000, but the projection totals are about \$517,000 less than in the original project budget. Since the shift in fund-

² See also the discussion of the project design in Section B-2 of Chapter I and B-3 of Chapter II.

ing to NDF/WID activities has been a predominant feature of the RCU's program for the past three years, we start with an interpretive assessment of the reasons for that shift in program emphasis.

2. Factors Influencing the Shift of Program Emphasis

Increases in NDF/WID share of the SEAP budget and decreases in the SME share are attributable to the following eight principal factors:

a. In-Place Foundations for NDF Expansion

In many of the eight Eastern Caribbean countries, RCU took on NDF programs where foundations for growth had already been laid. Rather than struggling with a host of start-ups and problem situations throughout the region, a large majority of the NDFs had surmounted initial growing pains and were ready for expansion. Such in-place building blocks did not exist for the SME program (see item "g" below).

b. Involvement of Community Leaders in the NDF Program

Although it has had its share of difficulties³, the NDF program on balance has been very successful and has been recognized as such. Its performance clearly has surpassed that of prior government-sponsored efforts aimed at the same target group. The involvement of business and community leaders in the NDFs has been both a cause and a result of success. NDF involvement is generally regarded as a respectable, socially responsible, even prestigious activity by opinion leaders in Eastern Caribbean communities.

c. CAIC Policy Stance

OECS business leaders advising SEAP advocated strong support of the NDF program. Presumably they were motivated by business community involvement in the activities of the NDFs, by a sense that the NDF program was "ready to move," and a belief that it contributes directly to social and political stability in their countries. CAIC's traditional stance has been that support of enlightened socio-economic objectives are in the best interests of the business community, and it has usually adopted a syncretic approach in working with other Caribbean institutions.

³ Some of these problems are outlined in Harry Russell's study, "Self-Sustainability for the NDF's/WID" submitted to SEAP in December of 1988. The preliminary analysis presented in Section E-5-b of Chapter II suggests that the quality of NDF loans may have declined in 1988.

d. RDO/C Support

The NDF/WID program reflects traditional AID objectives concerned with the poor majority and the status of women. The evident success of the NDF/WID program generated strong staff support within RDO/C. As noted in Chapter II, an early (\$20 million) version of the project design anticipated generous funding for the NDFs throughout the project life, rather than the sharp downward trend in the later years that emerged in the more modestly funded version of the final project design. Apart from sympathy with the objectives of the NDF/WID program, AID internal procedures tend to favor projects that meet their spending targets. As it became clear that the RCU's SME program would be delayed and that NDF/WID requirements were growing, RDO/C agreed to shifts in project funding.

e. Problems in Implementing the NCC Concept

The original Project Paper contained conditions precedent requiring the establishment of National Coordinating Committees broadly representative of the business community in each country prior to the disbursement of funds for major national components of the SME program. In all but one country, these national components were held up for the better part of two years because they could not conscientiously be fulfilled. NCC conditions precedent requirements were removed in the spring of 1988, thus permitting the national component of SME services to move forward.

f. Administrative Overload

In September of 1987, RCU's Regional Coordinator was promoted to the position of Deputy Executive Director. He was not replaced as head of RCU until July, 1988, and thus discharged the equivalent of two full-time jobs for a period of nine months. Despite an extraordinary effort on everyone's part the program was slowed in some measure.

g. Preconditions to Effective Delivery of Effective Technical Assistance

The original Project Paper assumed that services could be delivered in volume to the SME target group very early after program start-up. The project design had "front-end loaded" plans for SME training and technical assistance spending as well as other program activities. In effect, the design presumed the almost instant fulfillment of three preconditions which in fact took considerable time to fulfill (1) putting in place institutional arrangements in each country acceptable to RDO/C (see item "d" above); (2) establishing a local capability for diagnosing SME client needs and formulating appropriate assistance packages for these clients; and (3) compiling and testing on the basis of experience a roster of

local consultants with capabilities of delivering needed assistance within the limitations of the project budget.

h. Rethinking of the Credit Component

The original Project Paper (1986) envisioned an experimental credit component consisting of a matching credit fund and a small business investment company. An effort to establish these facilities demonstrated that the financial community was not ready for the types of innovative activity envisioned in the project design, and that something else was needed. RCU management and RDO/C then together decided that a working capital fund would be more suitable to the needs of the SME target group and to delivery capabilities within the region. Time was required for the redesign of the credit component.

...

The factor most constraining to the SME program was the effect of the conditions precedent requiring the establishment of NCCs in each country prior to the creation of a national delivery system. While that condition did not prevent the delivery of all training and technical assistance services, it affected the largest portion of these services which were supposed to be delivered through national institutions on a decentralized basis.

In Chapter I, we noted the ambiguity and tension in the original Project Paper (1986) between an approach which sought to achieve project objectives by increasing the productivity of the SME target group and one which stressed innovation in the process of building representative business institutions. In Chapter III, we saw that the Mission's 1987 Private Sector Strategy Update came down very heavily on the side of the institutional objectives, explicitly de-emphasizing the focus on job creation, export expansion, and productivity increases which had characterized the Mission strategy in the past. The Update drew particular attention to the institutional development features of the SEA Project, emphasizing the role of the National Coordinating Committees (NCCs) in the implementation process.

But the NCC idea simply did not work in the Eastern Caribbean. One NCC was formally established and held meetings, but even that NCC did not achieve very much for a variety of reasons.⁴ The ineffectiveness of the NCC system required that the RCU use other techniques to handle TAT interventions. This of course resulted in administrative delays and various inefficiencies.

Since the removal of the NCC conditions precedent, the RCU has concentrated on building effective delivery institutions and on the service delivery itself. Its philosophy has been that improved performance by all elements of the business community is the basic medicine needed to moderate the social and organizational problems experienced within that community.⁵

C. TECHNICAL ASSISTANCE AND TRAINING (TAT) FOR SMALL AND MEDIUM ENTERPRISES

During the twelve-month period ending December 31, 1988, SEA carried out 109 technical assistance interventions for 82 small and medium enterprises in areas such as agri-business, craft, furniture, footwear and printing. This compares with 74 interven-

⁴ This NCC was in Dominica. Conflicts within the NCC between the representative of the Dominica Association of Industry and Commerce and the NDF representative reduced the effectiveness of the NCC. To some extent this could be viewed as a conflict between the micro-business and SME components of the project. However, the Evaluation Team learned from conversations with members of the NCC that it was also a matter of personalities. Some members of the NCC also point out that another reason for its failure was the lack of an NCC staff person. It is understood that the Prime Minister objected to the composition of the NCC, possibly because it was an all private-sector grouping without any government participation. It was felt that the NCC had wasted a great deal of time and energy and it could not be re-established.

⁵ CAIC certainly does not lack a capacity for social engineering, but it has tended to establish its own agenda in this respect. CAIC has supported and participated in the process of collaboration among development foundations in the region. WID Ltd. originally opposed the notion of receiving SEA funding through CAIC, having received its money directly from RDO/C in the past. However, the organization's experience has been such that it now prefers to work through CAIC. Its staff believes that the CAIC connection has helped incorporate the organization into the Caribbean scene, where it often had been viewed as a U.S.- based PVO. The Eastern Caribbean Organization of Development Foundations (ECODEF), an organization which brings together all the development foundations and WID Ltd., now has a place on the CAIC Board.

tions for 63 companies between April 1986 and December 1987.^o Through June 20, 1989, some 255 interventions had been carried out.

The Logical Framework presented in the 1986 Project Paper presented ambitious quantitative targets for the SME portion of SEAP. The targeted number of technical assistance interventions for SMEs was 450 and the number of SMEs participating in training was set at 750. For the reasons discussed, the SME component is behind its original schedule. At the same time the targeted number of micro-business interventions has been far exceeded. With approval from USAID, a substantial portion of the project budget was shifted to the micro-enterprise component. However, the pace of SME achievement has picked up recently, particularly following the establishment of NDIs. RCU believes that the Project Paper target of 450 interventions can be met before the PACD. That is certainly possible if the project does not run out of resources first.

Spending on training and technical assistance during the first three years of the project has been as follows in U.S. dollars:

	1986	1987	1988	TOTAL
TECHNICAL ASSISTANCE:				
Trade Fairs & Exhibitions	\$7,097	\$14,770	\$28,917	\$50,784
CBI	21,200	4,895	5,584	31,679
RCU Direct	41,155	26,732	42,065	109,952
Institutional Activity	0	4,462	2,816	7,278
Regional Conferences	0	0	0	0
Marketing	0	0	31,902	31,902
SUBTOTAL	\$69,452	\$50,859	\$111,284	\$231,595

^o CAIC Annual Report for Financial Year 1988 and Program Year 1988/1989. In 1987, the RCU received and evaluated 120 requests for various forms of assistance. Of these, 43 requests were approved. An analysis of these interventions is as follows:

<u>Sector</u>	<u>Interventions</u>	<u>Percentages</u>
Garments	16	37%
Food Processing/Agri-Business	11	26%
Electronics	3	7%
Other (including Printing Chemicals, Ceramics)	<u>13</u>	<u>20%</u>
	43	100%

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TRAINING:

Regional Conferences	\$22,596	\$29,164	\$43,102	\$94,862
Subregional	0	0	21,453	21,453
Attachments Local	0	2,781	7,579	10,360
RCU Staff	1,508	5,071	5,664	12,243
Extra-Regional	0	277	9,243	9,520
Local	0	5,844	0	5,844
SUBTOTAL	24,104	43,137	87,041	154,282
TOTAL	\$93,556	\$93,996	\$198,325	\$385,877

The provision of technical assistance and training to SMEs under the SEA Program is market driven, in that it is responsive to local requests. The client is expected to pay a fee of 25% of the total cost of the assistance provided. There is an emphasis on ensuring that the intervention closely matches the practical needs of the client. The use of local and regional resources is also stressed. The training element of the project seeks to upgrade local skills using existing training institutions such as the Barbados Institute of Management and Productivity (BIMAP) and the Foundation for International Training (FIT).

From April 1986 to March 1989, the assistance has been primarily in the areas of plant consultancy, training, trade missions, business planning, and marketing. Our general findings with respect to these areas are set forth below:

1. In Plant Consultancies have been most beneficial in helping to bridge the gap for SMEs between simple technologies. These consultancies have also been particularly useful in helping small and medium companies address specific needs or problems identified by company management. This kind of assistance is highly relevant and practical. In plant consultants often provide "hands on" training to company staff, thereby improving their technical skills and capabilities. The end result is often improved methods of production and product enhancement, leading to increased production levels and increased sales. RCU is also helping to develop consultancy skills in the region by using experienced entrepreneurs who are SEAP beneficiaries to assist other entrepreneurs. Examples of such cases are Angelus Furniture of Barbados working with National Furniture in Grenada, and Hooper Garments of Barbados providing assistance to the Women's Social League and Sewing Centre of Montserrat.
2. Training Attachments and Training Programs have helped SME personnel acquire new practical skills and techniques. Training attachments with regional companies organized by RCU have proved to be very valuable learning experiences because participants gain practical,

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"hands-on" experience, observing and working in conditions similar to the environment that they operate in.' Some SME staff have benefitted from overseas training. RCU has also been instrumental in planning and conducting skills enhancing programs for persons from the OEC3 countries and Barbados. The most successful of these programs have been (1) the Trainer of Trainers Workshop conducted in March 1989 and benefitting 11 full time trainers from the NDFs, WID and the OAS Skills Training Project; (2) the regional Hairdresser Workshop series commenced in its first phase in St. Lucia in March 1989, and benefitted six participants who engaged in 40 hours of classroom and practical training in the use of hair chemicals, treatments, styling and other modern techniques; and (3) an Interior Decorating Workshop held in St. Kitts in February 1989, benefitting nine companies. The results have been the acquisition of new/improved products and improved methods of production.

3. SMEs which have been given financial support to participate in Trade Missions to other OEC3 countries and Barbados have benefitted in numerous ways. Firstly, Trade Missions provide valuable marketing experience for businessmen and women, as they learn first hand of the specific needs of their consumers. They can also learn about their competition (in terms of quality, prices etc.) in the markets they are trying to penetrate. Businesses are also often able to secure on the spot orders, as was the case of the DAIC Trade Mission in April 1989 which estimated that these orders exceeded EC \$500,000. Long and short terms orders are also secured, as well as good business contacts. Overall, the Trade Missions are eye opening experiences, which enable SME operators to focus more realistically on what is involved in doing business, particularly in an export market.
4. Strategic Business Planning Assistance programs have been conducted in Grenada and Dominica with six companies in each country participating. The major objective of these programs is to train participating entrepreneurs to write and assemble their own business plans. The writing up of these business plans have benefitted the businesses in that their owners and operators have been forced to focus on the future of the businesses and address such issues as short-term and long-term financial viability

⁷ Report on "An Assessment of the Impact of Technical Assistance and Training Interventions for Project Year 1987" by Bonita Morgan and Hyacinth Griffith, November 1988, pg. 9.

and future expansion of operations with a view to enhancing the overall effectiveness and efficiency of these business operations.

An area that deserves particular attention in the future is that of pricing strategy for manufacturers producing more than a single product. Cost accounting problems are most evident in Caribbean firms manufacturing a range of products, as many of them do. The pricing of specific items within a product range often is not done very well. Some lines lose money at the price set while other product lines may be overpriced. Thus, an astute buyer may put in a large order of the items with the highest cost to price ratio potentially bankrupting the supplying firm.'

5. So far, three Marketing Research and Training Programs have been conducted benefitting 13 entrepreneurs from six OECS countries in such sectors as crafts, agri-processing, furniture, footwear and printing. This six-day programme, originally designed by the Council of Eastern Caribbean Manufacturers (CECM), has two parts. First, there are two days (16 hours) of classroom training in the Principles of Marketing and Marketing Research. Second, there is a four-day practical program conducted in three islands during which the participants attempt to apply the theory gained in the classroom to actually marketing their products.

These programs have aided in exposing OECS business persons to intra-regional market demands and have assisted in good buyer-seller contacts. Overall, participants in these programs have been very positive about them. The programs have successfully met their objectives, and many companies have now achieved export sales. Several of the businesses interviewed actually complained that after their marketing trips, they secured so many orders that they could not fill them. Technical assistance to identify production bottlenecks and improve productivity should be linked to marketing interventions in the future.

A weakness of these programs is the selection of companies that would most benefit from participation. The program is designed for threshold companies -- i.e., com-

* The Louis Berger report Case Studies of the Private Sector in the Eastern Caribbean notes cases of firms that almost went bankrupt due to bad pricing policies. The study was produced for RDO/C in July, 1987.

panies with a good local market base for their products which are seeking to venture into export markets. However, out of the 13 companies participating in these programs, five did not even have a home base and clearly did not have the production capacity to export. The lesson learned is that the RCU and NDIs involved have to engage in more vigorous screening and nomination of companies for the programs to realize their desired outcomes.

Most recipients of technical assistance and training interviewed by the Evaluation Team expressed considerable satisfaction with the quality and outcomes of the services provided, acknowledging that the SEA project is providing valuable inputs which they would not normally receive. A few clients were impatient with the pace of service delivery and wanted RCU to respond to their requests more quickly. With a local agent (the NDI) now in place to channel the requests to the RCU in Barbados, and with the NDIs motivated to provide prompt, efficient service to their members, conceivably this response time will be shortened considerably.

A few clients also believed that the RCU should demonstrate more flexibility in its operations, particularly in responding to changing and unanticipated conditions, and in those situations when technical assistance and training recipients are participating in programs overseas.

The project has had a favorable impact on local and regional supporting services for SMEs. That favorable impact is likely to increase as the SME program gathers momentum. In the past, SME's have lacked networks that are friendly to them and supportive of them. Because of the absence of prior assistance, the changes wrought by the project are highly visible and well-appreciated by recipients. The creation and use of a list of approved consultants, most of them local, who have been able to provide quality services to SME firms is in itself a significant step forward -- as is the designation and activation of NDIs.

The growing list of SEAP interventions carried out by regional professionals in combination with favorable reports by recipients suggests an expanded capacity to apply their skills to this target group. The Evaluation Team found evidence of positive results following interventions and the generation of financial returns that could be used for direct purchases of local supporting services in the future. However, it should be clearly understood that what SEAP has established is a fledgling service network. If RDO/C assistance were to cease in the near future, it is doubtful that the favorable impact on local and regional supporting services would be long sustained.

The Evaluation Team's field visits also showed that there have been beneficial social and psychological gains as well as favorable economic impacts in terms of exports and employment opportunities from the SME component of SEAP. With a few exceptions, the interventions were directed to firms who would otherwise have had great difficulty paying for the technical assistance on their own. However, a number of them --as a direct consequence of the initial help-- probably could afford to pay for such assistance now.

Businesses assisted by SEA expanded sales, exports and employment. For example, in St. Lucia, a firm whose operations had been a net consumer of foreign exchange (assembling imported electronic components into kits sold in the domestic market) was transformed into a much more profitable export operation with SEAP-funded training in circuit board assembly. The circuit board business employs almost five times as many people as the original kit assembly operation, and all of the company's products are now exported.

In Dominica, the Leather Goods Cooperative received SEAP technical assistance as well as a working capital loan from the Dominica Working Capital Fund. This cooperative has managed to expand its markets both in and out of Dominica while keeping many craftsmen employed who otherwise might have lost income.

In Grenada, SEAP trained two employees of a bottled gas plant. The resulting increase in gas quality brought in new customers and expanded sales.

In St. Kitts, SEA training helped a bookstore owner modernize her physical layout and create more eye-catching displays. Sales increased.

In St. Vincent, SEA assistance helped a pasta manufacturer find export markets in Dominica.

SEA also has been active in helping business firms in the printing, furniture, apparel, and agribusinesses on several islands.

For the most part, the SEAP assistance has been directed to firms and business-people who have been considered as outsiders by the Caribbean business elite. As these businesses have expanded and become more profitable, SEAP has helped to change the attitudes of small businessmen towards their own destinies. In the process, their attitudes toward CAIC and their local business associations have changed. The availability of good business advice has ameliorated the sense that class and ethnic distinctions serve as serious barriers to business success in the Eastern Caribbean. Because putting a structure of support services for SMEs in place has improved recipients performance and energized entrepreneurial motivation, it has started to create its own market.

D. SELECTION AND EFFECTIVENESS OF NATIONAL DEVELOPMENT INSTITUTIONS

The SME program presently operates through a single National Development Institution (NDI) operating in each country. The institutions chosen to serve as NDIs in each island are:

<u>Country/Territory</u>	<u>NDI</u>
Antigua & Barbuda	National Development Foundation
Barbados	Handled by RCU directly
Dominica	Dominica Association of Industry & Commerce (DAIC)
Grenada	Grenada Chamber of Commerce and Industry
Montserrat	National Development Foundation/ Credit Union
St. Kitts & Nevis	St. Kitts-Nevis Chamber of Industry and Commerce
St. Lucia	St. Lucia Manufacturing Association
St. Vincent & the Grenadines	St. Vincent Chamber of Industry & Commerce

While only one institution has been selected in each country, the group taken as a whole represents a fairly wide socio-economic spectrum. At the risk of considerable oversimplification, it can be said that the Chambers of Commerce tend to represent larger trading firms, the Manufacturers' Associations represent smaller, "non-establishment" businesses, and that the National Development Foundations are identified with microbusiness.

We understand that one of the dilemmas of RDO/C's project design team--and one of the reasons for its original choice of the National Coordinating Committee mechanism--was the uncomfortable prospect of having to make a choice among national organizations competing for the role of SEAP project implementer. One certainly could imagine serious complaints if RDO/C had undertaken to make such a selection. However, CAIC and SEA appear to have had a sufficient credibility and knowledge of local conditions to handle the selection process effectively.

The NDIs were selected by RCU by weighing the institutional and staffing strengths of the various candidate organizations together with considerations of balance in the types of institutions chosen.

This was done partly to avoid overburdening a particular genre of organization and partly to assure a psychological separation of the SME component of the project from other programs and constituencies.

Conceivably an organization selected as NDI may be able to use the resulting public exposure to its own benefit. Nevertheless, SMEs are eligible for benefits whether or not they are members of that NDI or other recognized private sector groupings in the country.

The Evaluation Team's field visits demonstrated that RCU's approach to NDI selection has made good sense. It also underlined the importance of decentralizing some of the project's authorities and responsibilities. The SMEs targeted for Technical Assistance and Training reported almost universally that communications had improved significantly since the establishment of the NDIs. They see the NDIs as a key to effective service delivery. The RCU central unit has been operating under considerable pressure, which has made it difficult for the staff to service local requests and requirements from Bridgetown. Beyond this, there is a tendency for targeted recipients to feel more comfortable if a coordinator is only a local phone call away.

The only criticism of note that the Evaluation Team received about NDI activities was a lack of coordination with regard to training courses. The President of the Dominica Employers Federation complained that DAIC had organized a management training course similar to one organized by the Federation resulting in low attendance for both. The DAIC course was not sponsored by SEAP and is not directly relevant to this evaluation. However, it makes little sense to duplicate efforts when scarce resources are involved.

From its own vantage point, the Evaluation Team concluded that the NDIs are short on the resources and staff time needed to serve SME needs. The original notion was that the Executive Officer of the organization would not spend more than 20% of his or her time on SEAP activities. Experience has shown that more time has been required.

The present source of funds for compensating the NDIs for staff time is the 25% TA cost share paid by target SMEs. While NDI managements have not yet complained, some members of their associations expressed the view that their Executive Directors are

spending too much time on SEAP. ⁹ These members were usually in the distributive trades and probably perceived the SEAP program as being directed towards manufacturers rather than traders. In St. Lucia, where the NDI is the Manufacturers Association and the Executive Director spends a considerable amount of time on SEAP, there were indeed few comments of this kind. Presumably many members of the St. Lucia NDI see themselves as an SME constituency and view SEAP as a program that directly benefits their interests.

E. THE DOMINICA WORKING CAPITAL FUND

The Dominica Working Capital Fund (DWCF) is an innovative program that has been in effect since late 1988. The program is designed to provide working capital loans to firms which are unable to secure such assistance from the commercial banks. One loan was made before the effective date of the program. So far, three loans have been made under the program averaging about EC \$ 22,000. The largest loan, over EC \$ 30,000, was the first.

The working capital loan program addresses a gap in SEAP, i.e. many of the firms receiving TAT under SEAP were then unable to execute orders or changes in production techniques due to the lack of working capital. The program went into effect in September, 1988. There are three clients so far under the DWCF program. The program has an individual loan limit of EC \$ 50,000. The total allocated under the program for the fiscal year is U.S. \$ 50,000 (i.e. EC \$ 134,500 approximately). The pay back period was supposed to be a maximum of six months.

⁹ In his comments on a previous draft, the RCU Regional Coordinator writes:

The impact of the NDI programme in strengthening the sustainability of the Chambers through the 25% fee for service is a worthwhile trade-off for the time spent. Also increased member satisfaction with real services and the recent emphasis on hiring younger professionals rather than part-timers or retirees should be recognised as a positive change. RCU training in project management has also helped.

Earlier he comments:

A cursory comparison with the Non-NDI Chambers e.g. Antigua and Montserrat illustrates the fact. The Evaluators did not recognise RCU's development of reliable credit, management training, project management as well as research capabilities. Most of the institutional training is delivered directly by RCU staff rather than consultants. This in turn has strengthened CAIC institutionally.

The DWCF program was started at a time when the commercial banking sector in Dominica was highly liquid. Consequently, as their short liabilities increased they were looking for short term assets; working capital and overdrafts are good sources for this. The DWCF was designed to be available only to non-bankable clients. Consequently, during a period when commercial banks are more lenient than usual, the source of potential clients for the DWCF was reduced significantly. The fund has only disbursed about EC \$65,000 to three clients over the past nine months. It is unlikely that the budget will be used up this fiscal year.

The first of the firms to receive a loan under this program was the Leathergoods Manufacturers Cooperative Society Ltd. The loan was actually made before the program became effective and was transferred to the program when DWCF became operational. However the EC \$ 30,000 loan was made under normal NDF-Dominica terms, repayable over a two year period rather than the six month period recommended under DWCF. The loan was made to the Cooperative to expand production in order to meet orders resulting from attending a trade fair in Antigua (sponsored by SEAP) and to respond to a business plan developed under a SEAP TAT intervention. The Leathergoods loan was the only DWCF loan that was not formally secured. This was because the Cooperative had been an NDF client for a long time and had developed a good track record. It had expanded from a micro-business to a small firm with 33 members/workers selling their products both in the domestic market and overseas.

Two other working capital loans were made -- one to a furniture manufacturer and one to an agriculture marketing business. The loan to the furniture maker was for EC \$ 11,000 and was designed to finance an export order. The loan was secured by putting a "lien" on the payments received by the furniture maker for his exports. He is only able to access the payment after the NDF deducts the payment due to it. The loan to the agriculture marketing business was to finance inventory. This loan was secured against the personal property of the owner. Both of these businesses had not succeeded in receiving loans from the commercial banks despite their high liquidity.

The DWCF is working to alleviate the problems it was designed to resolve. One expectation of the fund designers was that the overhead costs per dollar lent would be significantly lower than the overhead cost for micro-businesses. It is not clear that this has happened. The amount of technical assistance required by these SMEs seems almost as high per dollar as required by the microbusinesses. Most of these businesses do not have their books in order and require a great deal of help with accounting procedures. Financially, the NDF expected to make larger net margins per dollar on these loans. It is not clear if this has happened.

The NRDF in St. Lucia has started to make loans to non-bankable SMEs from its own resources ¹⁰. Their loans are targeted to NRDF-graduated micro-businesses which have become SMEs. They seem to have lower cost per dollar as they already have developed accounting and other business systems necessary during their period as micro-business clients of NRDF.

The administration of the DWCF by the National Development Foundation of Dominica already demonstrates a high degree of professionalism despite the short length of time the fund has been in operation. The apparently high overhead costs per dollar probably can be reduced over time through measures which include:

- focusing lending on graduated NDFD clients with established track records; and
- charging interest premiums to clients with less impressive track records to take account of risk as a commercial bank would. The NDFD already has detailed credit histories for its microbusiness graduates.

As noted above, two of the three loans fit within the six month pay-back period limitation. One, which had actually been arranged before the program took effect and was then "grandfathered," had a longer term. Ultimately, it may be desirable to move to "line-of-credit" or "overdraft" facilities, but the costs of such services would have to be carefully considered before any such changes are made. Until a clear case to the contrary is made, the six months pay back period should be retained.

The program appears to be quite useful and its clients highly enthusiastic. It has helped exporters and productive investors, and that is quite desirable from a macroeconomic point of view. The National Development Foundation of Dominica is quite capable of running the program at its existing or at an expanded level.

Since the Dominica Working Capital Fund has been in operation for only a short time and the Scope of Work for this evaluation does not include the question of whether the program should be extended to other countries, we did not examine DWCF's experience thus far with the objective of recommending whether or not the program should be replicated elsewhere at this time. We believe that the originally scheduled mid-term review of DWCF should be carried out to establish the basis for any conclusions required in the near future. A description and analysis of the specific plan for

¹⁰ The resources were not provided directly by USAID but repayments of loans originally financed by AID funds did generate significant amounts of untied resources.

expansion under consideration should be part of the basis of an informed decision.

F. THE REGIONAL COORDINATING UNIT (RCU)

The Regional Coordinating Unit (RCU) is responsible for overseeing the provision of training and technical assistance to the Project's SME constituency in the region, for the experimental SME credit component, and for the NDF/WID Program. It has responsibilities for accounting and financial functions and project monitoring. As described in Chapter IV, the program of the RCU is overseen by a Regional Policy Committee which reports to the CAIC Board of Directors.

The RCU has a professional staff of four persons and administrative support staff of three. It is managed by a Regional Coordinator. The present staff complement is as follows:

Professionals:

- 1 - Regional Coordinator
- 1 - Project Officer
- 1 - Assistant Project Officer
- 1 - Accounting Officer

Support Staff:

- 3 Secretaries.

This staff is charged with the following tasks:

- Accounts
- Brokering of Technical Assistance and Training
- Consultants Roster
- Contracts
- Data Base Development and Analysis
- Finance/Disbursements
- Inter-Agency Collaboration
- Project Management
- Project Monitoring
- Reports
- Secretarial Services
- Studies & Analyses
- Specialized Technical Assistance (Marketing)
- Supervision of T.A. Grantees

The consultants roster is a function of particular importance to the SME program. It contains the names of some 80 international and regional consultants and technical agents and is used to iden-

tify experts for consultancy work and for referral to other development agencies.

The SEAP staff has managed to perform reasonably well with limited staffing and under difficult circumstances. A difficult period occurred when the original Regional Coordinator was also handling duties as Deputy Executive Director of CAIC and was only able to devote a part of his time to the SEA Program. There was a lengthy intervening delay before the new Regional Coordinator came on board.¹¹ SEAP had only one project officer on its staff as compared to the two proposed in the project agreement.¹²

Once the new Regional Coordinator had taken up his post, the new National Delivery Institutions (NDIs) were named and replaced the NCC system which was not working. The NDIs started to function in late 1988. As the demands from the field have become more complex and the need for servicing both the NDFs and NDIs becomes more acute, increased pressure is being put on the RCU staff. There is need for additional staff support and for a vision of the program's future beyond the PACD.

G. SUMMARY ASSESSMENT

RCU has developed a sound framework for selecting eligible companies for receiving Technical Assistance and Training and a National Delivery Institution (NDI) System for dispensing the support. A Technical Assistance Manual has been developed, documented and reviewed for implementation by each National Coordinator (NDI Agent). A Technical Assistance Committee approves requests and monitors impact.

Seven National Delivery Institutions have been identified and strengthened. Interventions have been extended to more than 100 companies. A review of the impact of these interventions on recipient companies points to a very good track record overall with productivity improvement, quality improvement, increased sales, and development of new markets as some of the outputs.

¹¹ The new Regional Coordinator was appointed effective July 1, 1988. Previously, he established and managed the St. Kitts-Nevis NDF and was seconded to SEAP for one year (1986-1987) in order to initiate the NDF/WID program.

¹² In his comments on a previous draft of this report, the RCU Regional Coordinator takes the position that RCU understaffing was directly caused by cuts which RDO/C incurred in 1987/1988: "The hiring of additional staff was then postponed." We understand that RCU is now recruiting an additional member of its professional staff.

The Evaluation Team found the Small Enterprise Assistance Project (SEAP) widely accepted as an efficient and reliable program for providing badly needed managerial, technical and financial support to strengthen and expand Small, Medium and Micro businesses.

SEAP's track record in handling the institutional side of its responsibilities has been quite satisfactory. Business leaders and development planners interviewed expressed confidence in the abilities of the NDFs, Chambers of Industry and Commerce, and the CAIC itself to process and deliver the services needed. The NDI approach generally seems to be working well.

The SME component has made a very good beginning under difficult circumstances, but it is only a beginning. If the program is to achieve its full potential, it requires a higher level of resource commitment than it made in the first three years, a plan for its continuation beyond the PACD, and the building up of capabilities both in RCU and the NDIs. The main needs of an expanded program may be anticipated as follows:

1. An expanded decentralized delivery capability is required to fulfill the original intent and targets of the SME program. Properly staffed and executed, the SME assistance function could be a significant revenue generator for an NDI. However, the majority of NDIs lack the necessary manpower to maximize the benefits that can be gained from the project if it were to be fully implemented at the local level.
2. There is a need for more delegation of authority from the RCU to the NDIs. This in turn will require more RCU staff interaction with, and training of, NDI personnel.
3. The capacities of RCU and NDIs in the diagnosis of the needs of SMEs and the designing of suitable packages of training and technical assistance for them should be substantially strengthened.
4. Training activities for SMEs should be expanded. Additional resources need to be applied to accurately assess and identify specific training needs of SMEs in the various territories.
5. RCU has been working on its system for monitoring SME activities for some considerable time. This work needs to be brought to decisive closure within the next six months. RCU should also develop a system for providing NDIs and SME clients with access to trade, industrial and other basic information helpful to businessmen.
6. RCU needs a second program officer. The project was originally designed to have two project officers at the RCU level.

Lack of staff has stretched the delivery capability of the unit, particularly with respect to the SME component of the project. The program management capabilities of RCU are critically important to every phase of the project cycle.

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CHAPTER VI

WOMEN IN DEVELOPMENT ISSUES

A. INTRODUCTION

The Scope of Work for this evaluation requires an assessment of benefits to women in connection with the SME portion of the project, with particular attention to credit activities. Since the SME component accounted for only 25.8 percent of SEAP spending in the early years of the project and its new project lending facility had disbursed less than \$25,000 at the time of the evaluation, our analysis takes a project-wide perspective, and includes the NDF credit component.

As in the case of many other societies, the Eastern Caribbean has its share of institutions controlled and managed mainly by men, including organizations which are members of CAIC itself. The project thus operates within an environment in which widespread adherence to traditional gender roles has created barriers to economic achievement by women at many levels of society.

CAIC projects funded by RDO/C (including the SEA Project) never have articulated improving the status of women as a specific goal, nor have they established targets in this area. Thus, project managers have never been specifically and concretely charged with the task of changing the conditions of women in the largely traditional project setting. Nevertheless, it is fair to say that the resources provided by RDO/C have had an ameliorating impact on women as a beneficiary group and, perhaps to some extent, on the institutions responsible for delivering RDO/C-funded services.

From the start of AID funding in the early 1980's, CAIC has employed women in supervisory positions. Women have headed CAIC units concerned with communications and membership, training, and financial administration. Today women in positions of responsibility include the Program Manager for Training and Affiliate Development, the Financial Controller, and the Office Manager. As described later in this Chapter, CAIC has assisted in the process by which W.I.D. Limited of Barbados became integrated into the region's NDF network.

Section B of this Chapter provides background and involvement of women in the sector, and assesses the general level of Project benefits to women small business operators. Section C discusses in more detail specific issues of women's participation and experiences as beneficiaries of the Project components of training, technical assistance, and credit. Section D provides an assessment of the Project's success in assistance to women in development, and

makes recommendations for further interventions of importance to the WID focus.

B. ROLE OF WOMEN IN THE CARIBBEAN

Today, as in the past, the majority of Caribbean women work out of economic necessity, not by choice. The full nuclear family unit, particularly among the low income groups in these societies, is rare, with the male figure often being absent or not a constant presence. The result is that, from a regional perspective, over 50% of Caribbean households are headed by women who are often the sole breadwinners for their families.

Caribbean women continue to work primarily in traditional women's roles. In the private sector, women are predominant as employees in light manufacturing (e.g., garments and assembly-type operations), and in the service industries (e.g., hotels, eating establishments). They are also involved in the small scale growing and selling of vegetables and fruit. Additionally, as stated in the Project Paper, women comprise a significant percentage of micro and small business people in the Eastern Caribbean. However, these businesses are not registered and their activities and contributions are often overlooked or go unrecognized.

Women operating microenterprises and small businesses encounter basically the same kinds of problems as their male counterparts. They have few assets, limited business skills and little access to working capital. In reality, traditional lending organizations still perceive women as a high risk group, particularly if they cannot in some way demonstrate support from a male counterpart in the business.

The SEA Project has made some gains for women in the three years and nine months since its start-up, but improving the status of women was never a stated objective of the SEA Project. CAIC has never sought to isolate and address Women In Development issues per se. However, women make up 66.67% of the NDF/WID staff (see Table VI-1), 71.43% of the NDI staff (see Table VI-2), and 57.14% of the RCU staff of CAIC as reported by CAIC. Virtually all of CAIC's affiliate and corporate members are controlled and managed principally by men. The CAIC Board at the present time has one female representative. However, as CAIC has acted as the executor of the SEA project through its Regional Coordinating Unit, it has found itself interacting with more women.

¹ Caribbean Regional Project Paper, Small Enterprise Assistance, pg. 117.

TABLE VI-1

**SMALL ENTERPRISE ASSISTANCE PROJECT
N.D.F. / W.I.D. INFORMATION SUMMARY**

STAFFING

	MALE	%	FEMALE	%	TOTAL
ANTIGUA & BARBUDA	3	42.86%	4	57.14%	7
BARBADOS	3	42.86%	4	57.14%	7
DOMINICA	6	54.55%	5	45.45%	11
GRENADA	2	28.57%	5	71.43%	7
MONTSERRAT	0	0.00%	2	100.00%	2
ST. KITTS & NEVIS	3	30.00%	7	70.00%	10
ST. LUCIA	4	40.00%	6	60.00%	10
ST. VINCENT	2	40.00%	3	60.00%	5
W.I.D.	0	0.00%	10	100.00%	10
	-----		-----		-----
	23	33.33%	46	66.67%	69
	*****		*****		*****

Provided by CAIC, September 1989

TABLE VI-2

SMALL ENTERPRISE ASSISTANCE PROJECT
NATIONAL DELEVERY INSTITUTIONS / R.C.U.

STAFFING

	MALE	%	FEMALE	%	TOTAL
ANTIGUA & BARBUDA	1		0		1
BARBADOS	0		0		0
DOMINICA	0		1		1
GRENADA	0		1		1
MONTSERRAT	0		1		1
ST. KITTS & NEVIS	1		0		1
ST. LUCIA	0		1		1
ST. VINCENT	0		1		1
TOTAL	2	28.57%	5	71.43%	7

<u>R.C.U.</u>	3	42.86%	4	57.14%	7
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Provided by CAIC, September 1989

By virtue of the fact that women are predominant in the microenterprise and small business sectors in the Eastern Caribbean, and with significant project support going to the region's NDFs and WID in Barbados, many women are benefitting overall from the project's activities. Business women are gaining easier access to credit.

They are upgrading their business skills through specially conducted programs run by the NDFs/WID and the RCU. Additionally, the project has been able to create and sustain jobs for women. RCU reported that in 1988 at least 40% of the job beneficiaries and 30% of the loan recipients were women.²

The SEA Project is positively impacting women business owners and operators by providing them with the finances and technical and business skills to run their operations in a more efficient and effective manner. These businesses also provide important employment opportunities and help to maintain already existing jobs for women.

Another noteworthy fact is that the microenterprise and small business sectors in the Eastern Caribbean now have a voice on the CAIC Board by way of an ECODEF representative. Thus WID issues can have a hearing at the CAIC Board level.

C. WID ISSUES IN THE SEA PROJECT

The discussion of WID issues in the Project Paper for the most part focusses on W.I.D. Limited of Barbados:

"It is envisioned that this project will pay particular attention to sectors, such as huckstering, where women predominate and will develop assistance packages focused on the particular needs of women and thereby remove some of the barriers which have been virtually institutionalized and prohibit the expansion of women-owned businesses. There are a number of women-in-development agencies both within islands and regionally which can be hired to service particular problems that women are encountering. While cognizance will be given to women's particular problems, it is also acknowledged that many problems that women face are those facing an entire sector, and specific sectoral technical assistance will be needed by both men and women."

The Project Paper discusses women in development issues such as assisting "micro-enterprises through National Development Founda-

² CAIC Annual Report for Programme Year 1988/1989 and Financial Year 1988, pg. 24.

tions and the Women in Development programs"; providing "portfolio management, collection policies, and client monitoring for NDF and WID staff; ...absorbing the current AID support to ...the NDFs...as well as ...WID; and providing project-sponsored training including..."the design of training curricula and programs for NDF and WID clients and regular exchanges of information and experience among NDF and WID staff". These points have been taken into consideration in the project's implementation and headway has been made.

The Evaluation Scope of Work asked four questions with regard to women in development:

1. Are there specific types of projects for which women requested assistance? Were they in areas considered traditionally for women?
2. What was the average size of loans for women as compared with men?
3. Were any of the credit-related actions or requirements, such as the marketing of the credit program, the loan terms, or the application process discriminatory against women?
4. To what extent were women beneficiaries of technical assistance and was it necessary to design special training programs for them?

1. Technical Assistance and Training for Women

An analysis of 83 businesses accounting for 115 technical assistance and training (TA&T) interventions supports the notion that SEAP supports women (and men) in requesting and receiving TA&T. Depending on assessed needs, TA&T was given in such non-traditional areas for women's involvement as marketing, management, and operations and maintenance of machinery as seen in Table VI-3. That these women are running their own businesses and succeeding is in itself a positive change.

Of the 28 small and medium sized businesses visited by the Evaluation Team, 12 were women-owned businesses while 16 were men-owned. A review of CAIC internal technical assistance and training assessment documents based on 1987 data revealed an additional eight women-owned businesses, 24 men-owned and one multi-owner business. A review of the SEAP TA&T data base revealed eight more women-owned enterprises, 13 male-owned, and one joint woman/man-owned business.

A more global review, combining both training and technical assistance interventions, follows in Table VI-3.

TABLE VI-3

TRAINING AND TECHNICAL ASSISTANCE BENEFICIARIES

	Women	Man
Interior Decorating	2	0
Production	117	145
Marketing*	9	14
Management**	21	39
Operation of Equipment***	67	79
Maintenance of Equipment	8	19
Quality Control	22	39
Trade Shows	<u>6</u>	<u>6</u>
TOTALS	252	341

* Includes Trade Missions and brochure production.

** Includes accounting, costing, and strategic business planning.

*** Includes equipment design.

NOTE: Data from RCU spreadsheets, personal visits and a review of CAIC Training Unit evaluation report. Based on an analysis of 115 interventions carried out for 83 enterprises.

2. Technical Assistance to Non-Traditional Women-Owned Enterprises

An example of a non-traditional woman-owned business is an operation in Grenada consisting of two small compressed gas plants and a gas bottling company. This woman-owner does her own accounting and has received non-traditional technical assistance (TA) on two occasions. The TA consisted of a specialist installing equipment and working with the business owner and her two sons (who work in the plant) to explain how the two gas processing plants work and their maintenance. This female owner is now exploring opportunities for capturing and marketing the nitrogen waste product from her plant.

Another example of non-traditional technical assistance for women is taken from the CAIC Training and Affiliate Development Report. In 1987, an IESC consultant worked for one month with a group of male and female employees at AHI Plastics in Barbados to demonstrate how to use machines more efficiently, examine the testing equipment to work out problems and ensure that the final product conformed to required standards. The consultant also taught lines

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people how to deal with problems in a timely fashion, and to prioritize important tasks.

At Tropical Printers Ltd. in Dominica, a regional production specialist was contracted for 24 days in 1986 to analyze, train and make recommendations which affected 15 female and 15 male employees and the male owner. The specialist reviewed the production process, identified inefficiencies and bottlenecks and worked with the female and male employees to change the plant layout, designed improvements for the Camera and Art Departments making recommendations to improve paste-up and art-work methods, and trained staff in all departments.

3. Design of Technical Assistance

For the 115 interventions reviewed, 252 of the 593 beneficiaries of technical assistance were women. It does not appear that special training programs need to be designed specifically to meet the needs of women. However, it was noted that project interventions are often designed for a specific enterprise rather than being designed generically.

4. Loans To Women

Table VI-4, provided by CAIC's RCU, shows that most of the NDFs (excluding W.I.D. Limited) have increased their number of loans to women. Women have received fewer loans than men in all years in all NDFs, except W.I.D. Limited in Barbados and the NDF in Antigua. In Antigua, women and men received eight loans each in 1988. W.I.D. Limited of Barbados is exceptional in that most of its loans have been made to women. Nevertheless, the number of loans to women has steadily decreased, from 66 in 1986, to 57 in 1987, and 49 in 1988. While W.I.D. Limited loans to men decreased in 1987, they increased in 1988. W.I.D. Limited did mention that they made an effort in recent years to include men in their lending program.

The average percentage of total loans which were made to women during the period 1986 - 1988 derived from Table VI-4 are:

Antigua	42.61%
Barbados	36.92% (for 1986 and 1988)
Dominica	28.90%
Grenada	32.90%
Montserrat	16.28% (1988 only)
St. Kitts	22.70%
St. Lucia	22.98%
St. Vincent	22.03%
W.I.D. Limited	81.18%

For the period 1986 - 1988, of 1,698 loans disbursed by the NDFs/WID, 35.28% were made to women, 56.77% to men, and 7.95% to partnerships.

TABLE VI-4
MDFs LOAN BREAKDOWN BY GENDER
CURRENCY: US\$

NATIONAL DEVELOPMENT FOUNDATIONS
NUMBER OF LOANS

INDICATORS		ANT	BAR	DOM	GREN	MONT	ST.KIT	ST.LUC	ST.VIN	M.I.D.	TOTAL
1986	MALE	8	26	45	32	0	67	34	2	3	237
	FEMALE	8	11	24	22	0	21	12	0	66	164
	OTHER	0	0	8	0	0	0	0	0	0	8
1987	MALE	39	N/A	43	63	0	107	30	18	2	302
	FEMALE	23	N/A	22	16	0	39	15	12	57	184
	OTHER	2	N/A	15	0	0	4	23	0	8	52
1988	MALE	43	32	53	64	7	119	61	17	19	425
	FEMALE	31	30	35	48	7	36	16	6	49	251
	OTHER	0	6	27	30	7	4	0	0	10	75
TOTAL	TOTAL MALE	90	58	117	141	15	313	125	37	24	964
	TOTAL FEMALE	62	41	76	84	7	96	43	18	172	599
	TOTAL OTHER	2	6	47	30	1	8	23	0	18	135

*Partnerships

NOTE: Provided by CAIC, July 1989.

SOURCE: Monthly, quarterly, half yearly, annual NDF Reports

Table VI-5 prepared by CAIC's Controller's Office shows value, number and average size of loans by gender (including non-SEAP funds) for the countries for which this information is available.

Average loans for women were higher than for men in the following: Dominica in 1986, in Grenada in 1987 and 1988 (through September 30), in St. Lucia for 1988 (through September 30), and in loans disbursed by WID in 1987.

There was no indication in interviews with the NDFs that there was a conscious decision to give women fewer or smaller loans than those made to men, and the evaluation team found no evidence of gender discrimination.

5. Impact on Jobs

Perhaps more revealing than the average loan size for women is the impact of the project on jobs by gender as seen in Table VI-6.

Consistently the number of jobs for women impacted by loans has increased in all eight Eastern Caribbean countries that were included in the Evaluation, except WID from 1987 (at 173 jobs) to 1988 (at 128 jobs).

In 1988, 90 jobs for women were created, sustained or not jeopardized in Antigua and Barbuda, 85 in Barbados, 64 in Dominica, 34 in Grenada, 15 in Montserrat, 68 in St. Kitts/Nevis, 46 in St. Lucia, 12 in St. Vincent and the Grenadines, and 128 in WID. This represents 42.2% of all jobs impacted in 1988. By island, this represents for 1988: in Antigua and Barbuda 49.1% of total jobs being for women, 57.8% in Barbados, 29.6% in Dominica, 28.3% in Grenada, 19.7% in Montserrat, 41% in St. Kitts/Nevis, 35.9% in St. Lucia, 18.2% in St. Vincent and the Grenadines, and 70.7% for WID.

Throughout the life of the project, a total of 1,498 jobs for women have been impacted compared with 2,278 for men.

6. Loan Process

With regard to potential discriminatory policies or practices against women in credit-related actions, loan terms, and the application process, it appears from the interviews conducted by the Evaluation Team that loans were reviewed on a case-by-case basis irrespective of gender, and that loan terms are guided by the current policies of the NDF, FND, NRDF, and WID and by the local market rate. For example, in Montserrat the NDF lends at a rate of 12 percent simple interest (while the current market rate is 10-11 1/2 percent compounded).

As for the loan application process, it was reported by the NDFs that applicants received technical assistance in completing the

TABLE VI- 5
 AVERAGE LOAN SIZE BY GENDER
 (IN U.S. DOLLARS)

	1986	1987	To Sept. 30, 1988	1989
Dominica				
Female				
Value of Loans	\$40,929	\$24,038	\$39,059	N/A
Number of Loans	24	22	30	N/A
Average Loan Size	\$1,705	\$1,093	\$1,302	--
Male				
Value of Loans	\$67,899	\$77,491	\$66,318	N/A
Number of Loans	45	43	35	N/A
Average Loan Size	\$1,509	\$1,802	\$1,895	--
Other				
Value of Loans	\$15,010	\$27,236	\$49,596	N/A
Number of Loans	8	15	20	N/A
Average Loan Size	\$1,876	\$1,816	\$2,480	--
Grenada				
Female				
Value of Loans	N/A	\$98,981	\$87,630	N/A
Number of Loans	13	25	22	N/A
Average Loan Size	--	\$3,959	\$3,983	--
Male				
Value of Loans	N/A	\$46,341	\$27,440	N/A
Number of Loans	18	63	44	N/A
Average Loan Size	--	\$736	\$624	--
Other				
Value of Loans	N/A	\$7,043	\$0	N/A
Number of Loans	N/A	1	0	N/A
Average Loan Size	--	\$7,043	\$0	--
St. Kitts/Nevis				
Female				
Value of Loans	N/A	N/A	N/A	N/A
Number of Loans	N/A	39	22	N/A
Average Loan Size	--	--	--	--
Male				
Value of Loans	N/A	N/A	N/A	N/A
Number of Loans	N/A	107	84	N/A
Average Loan Size	--	--	--	--
Other				
Value of Loans	N/A	N/A	N/A	N/A
Number of Loans	N/A	4	3	N/A
Average Loan Size	--	--	--	--

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St. Lucia				
Female				
Value of Loans	\$10,017	\$39,451	\$32,257	N/A
Number of Loans	8	15	14	N/A
Average Loan Size	\$1,252	\$2,630	\$2,304	--
Male				
Value of Loans	\$23,031	\$78,909	\$132,492	N/A
Number of Loans	18	30	58	N/A
Average Loan Size	\$1,280	\$2,630	\$2,284	--
Other				
Value of Loans	\$0	\$0	\$0	N/A
Number of Loans	0	0	0	N/A
Average Loan Size	--	--	--	--
St. Vincent & the Grenadines				
Female				
Value of Loans	N/A	N/A	\$2,083	N/A
Number of Loans	N/A	N/A	N/A	N/A
Average Loan Size	--	--	--	--
Male				
Value of Loans	N/A	N/A	\$8,937	N/A
Number of Loans	N/A	N/A		N/A
Average Loan Size	--	--	--	--
Other				
Value of Loans	N/A	N/A	N/A	N/A
Number of Loans	N/A	N/A	N/A	N/A
Average Loan Size	--	--	--	--
WID (Barbados)				
			All of 1988	**
Female				
Value of Loans	N/A	\$80,053	\$87,549	\$19,150
Number of Loans	N/A	57	49	10
Average Loan Size	--	\$1,404	\$1,787	\$1,915
Male				
Value of Loans	N/A	\$2,250	\$50,247	\$18,552
Number of Loans	N/A	2	19	5
Average Loan Size	--	\$1,125	\$2,645	\$3,710
Other				
Value of Loans	N/A	\$11,527	\$28,500	\$4,500
Number of Loans	N/A	8	10	3
Average Loan Size	--	\$1,441	\$2,850	\$1,500

Includes Non-SEAP funds.

*Partnerships

**Through March 1989.

TABLE VI-6
LOANS DISBURSED AND IMPACT ON JOBS BY GENDER
(IN U.S. DOLLARS)

	1986	1987	1988	Through March 1989	TOTAL
Antigua & Barbuda					
Total Loans Disbursed	\$54,683	\$172,045	\$209,428	\$6,651	\$442,807
Impact on Jobs:					
Female	28	86	90	6	210
Male	27	108	93	8	236
Total	55	194	183	14	446
Barbados					
Total Loans Disbursed	\$153,326	\$119,233	\$187,644	\$108,130	\$568,333
Impact on Jobs:					
Female	73	77	85	16	251
Male	159	90	62	27	338
Total	232	167	147	43	589
Dominica					
Total Loans Disbursed	\$123,838	\$128,765	\$195,074	\$47,474	\$495,151
Impact on Jobs:					
Female	38	41	64	14	157
Male	49	97	152	26	324
Total	87	138	216	40	481
Grenada					
Total Loans Disbursed	\$147,311	\$152,365	\$149,304	\$44,940	\$493,920
Impact on Jobs:					
Female	32	31	34	13	110
Male	360	80	86	9	535
Total	392	111	120	22	645
Montserrat					
Total Loans Disbursed	\$0	\$0	\$64,074	\$19,170	\$83,244
Impact on Jobs:					
Female	0	0	15	4	19
Male	0	0	61	14	75
Total	0	0	76	18	94
St. Kitts/Nevis					
Total Loans Disbursed	\$156,469	\$213,509	\$348,046	\$64,534	\$782,558
Impact on Jobs:					
Female	37	50	68	25	180
Male	91	90	98	33	312
Total	128	140	166	58	492
St. Lucia					
Total Loans Disbursed	\$108,827	\$158,612	\$155,714	\$19,623	\$442,776
Impact on Jobs:					
Female	15	49	46	10	120
Male	46	91	82	10	229
Total	61	140	128	20	349
St. Vincent & the Grenadines					
Total Loans Disbursed	\$4,166	\$33,712	\$23,957	--	\$61,835
Impact on Jobs:					
Female	0	19	12	--	31
Male	6	35	54	--	95
Total	6	54	66	--	126
WID (Barbados)					
Total Loans Disbursed	\$110,033	\$93,830	\$166,297	\$42,203	\$412,363
Impact on Jobs:					
Female	96	173	128	23	420
Male	31	33	53	17	134
Total	127	206	181	40	554

Includes Non-SEAP funds.

NOTE: Impact on jobs means jobs created, sustained or in jeopardy without the loan.

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application and obtaining backup data, regardless of gender. The NDFs reported that most applicants of both sexes had little experience with record-keeping, accounting or bookkeeping.

In many islands, married women are required to have a co-signer to obtain long-term credit and working capital loans from banks. However, under the SEA Project, the NDFs do not require married women to have a co-signer for a loan.

7. W.I.D. Limited Loan Arrearages

For 1986, 1988, and through March 1989, loan arrearages for WID Ltd. were the highest in 1986 at 3.29%. (No figure was available from the RCU data base for 1987.) According to WID's Executive Director, the low arrears rate is attributable to the following facts:

- o WID has a specialized loan office that assesses loans.
- o A Loan Committee of three people must sign approval to each loan.
- o Disbursements go directly to suppliers (in the case of commodities) rather than to the loan applicant.
- o All loans are fully collateralized in seven days. On bad loans, WID will repossess.

8. W.I.D. Limited Relationship to CAIC and to the NDFs

CAIC has assisted in the process by which W.I.D. Limited has become part of a regional network of NDFs. In turn, when W.I.D. Limited receives queries from women and men outside of Barbados, they are referred to the appropriate national NDFs.

This year W.I.D. Limited of Barbados staff were included in CAIC and SEAP training sessions.

W.I.D. Limited has been successful in seeking funding from other sources, although it has been funded by AID since 1979.

The goal of generating 25% of project costs from other sources has been accomplished by W.I.D. Limited. In 1986, almost 100% of WID's operating budget came from SEAP, but it decreased steadily to 78% in 1987, and to 53% in 1988. While SEAP loan monies to W.I.D. Limited increased from zero in 1986 to 38% in 1987, they decreased to 8% in 1988.

CHAPTER VII

PRINCIPAL FINDINGS AND RECOMMENDATIONS

A. INTRODUCTION

This chapter contains the principal findings and recommendations of the Evaluation Team. Those findings and conclusions directly related to the items contained in the Scope of Work for this evaluation are presented in Section B. Other findings and recommendations are presented in Section C.

B. FINDINGS AND RECOMMENDATIONS: EVALUATION SCOPE OF WORK

The Scope of Work for the present evaluation is organized under three headings: "CAIC - General" ("I" below), "CAIC - Specific" ("II" below) and "Small and Medium Enterprise Assistance" ("III" below).

Our findings and recommendations with respect to each of the items listed in the Evaluation Scope of Work are as follows:

CAIC - General

I-1. In the past two years, CAIC has made commendable progress in adjusting its structure to the requirements of development program delivery. It has been very responsive to recommendations for organizational change made by RDO/C and by consultants and auditors. The tension between the policy advocacy and development functions which existed two years ago has noticeably abated, but there is further room for rationalizing the organizational assignments of responsibility for these two functions.

Most corporate members view the organization's policy advocacy functions as the service in which they are most interested. On the whole, they are quite satisfied with what CAIC is doing in this area. The austerity program which the Association has put into effect has won the approval of corporate members who had previously been critical of CAIC's spending practices. However, those organizational members who are served by the Local Affiliate Development Program would like CAIC to provide them with more funds and services.

I-2. The interviews carried out by the Evaluation Team indicated that CAIC has an excellent image among its members, the public sector, and in the community at large. At least 80% of the businessmen interviewed (both members and non-members of CAIC) had

a knowledge of some CAIC activities and had a general sense that it was "guarding their interests." In comparison with the results of the survey carried out in 1986 for LBII's 1986/87 evaluation of the PSIAP project, the 1989 interviews demonstrated a much higher level of awareness of CAIC and knowledge of its activities.

As a broadly based business organization, CAIC is not able to serve all its members in the ways and to the extent that they might individually wish, but it has a solid base of support for what it does well. The Association appears to respond to criticism from within its ranks and to make constructive changes. Its delivery of services to small and medium sized enterprises and its assistance to institutions supporting microbusinesses has enhanced its reputation and broadened its public support.

While CAIC is still seen as being led by the larger firms in the region, its services to SME and microenterprise constituencies are recognized and appreciated. The most strongly critical comments of CAIC came from some Chambers of Commerce whose staffs saw some of CAIC's activities as competition or intrusion at the national level. However, even those Chambers which regard CAIC as a local competitor acknowledged the importance of CAIC's policy advocacy functions at regional and international levels, if not at the national level.

I-3. CAIC has made very great strides in improving its internal management systems, particularly its financial controls and financial reporting. It has reduced its staff and made cost-savings on rent and other items. It is now a leaner and more cost-effective institution. It has made some progress toward financial self-sufficiency, but it remains to be seen whether the current membership drive can produce sufficient revenues to achieve the small surplus projected in CAIC's budget for the current year. A computerized SEA project monitoring system has been put in place, but the data base was not up to date at the time the Evaluation Team carried out its field studies. The time lag appears to be attributable to (1) staff overload; (2) a requirement for more editing and revision of data received from the field than would normally be expected; and (3) more involvement of senior professional personnel in the editing and revision process than would normally be expected. These problems should be addressed as additional staff resources and capabilities become available.

I-4. CAIC's Regional Coordinating Unit (RCU) has reached its SME constituency by utilizing the skills of its own staff, by using delivery organizations such as the International Executive Service Corps, and by working through National Delivery Institutions (NDIs) located in each country. The original project design properly premised that most of the SEA Project's services to SMEs would be delivered through national institutions. However, such delivery was not possible in most territories until unrealistic conditions

precedent requiring the establishment of National Coordinating Committees were removed in 1988. Since these restrictions were removed, NDIs have been selected in each country and service delivery has been speeded up. Judging from its early performance, the NDI structure is an appropriate and effective choice as the main channel for service delivery. However, staff capabilities at both the RCU level and in the NDIs should be enhanced as the volume of activity expands. Further delegation of authority to the national level also will be required.

CAIC-Specific

II-1. CAIC's present committee structure reflects the substantial influence of the Mission at a time when institutional development objectives dominated RDO/C's thinking about its private sector strategy in the region. That influence resulted in the creation of one very useful and effective new committee, the SEA Policy Committee, but it also produced more new committees than CAIC could effectively staff and support. However generous their intentions, Caribbean businessmen have limited time to spend on business association affairs, and usually prefer to spend their time on committees that have tangible influence, resources, and staff support. The policy committees for the Caribbean and for the OECS turned out not to have these attributes, and were essentially still-born. Current de facto arrangements for policy consideration by CAIC Board Committees appear satisfactory.

II-2. CAIC should now review its committee structure with a view to eliminating moribund committees and formally transferring their key functions to the more active committees with appropriate regional perspectives. It should consider eliminating the Caribbean-Wide Development Committee (any important functions can be formally transferred to the Executive Committee) and the OECS Development Sub-Committee (any important functions can be formally transferred to the CAIC/SEAP Policy Committee.)

II-3. CAIC is viewed by the public sector and the public at large in the Caribbean as a knowledgeable and responsible advocate of private sector viewpoints. Each one of the public officials interviewed by the Evaluation Team articulated positive views of CAIC's presence and image. CAIC has had continuing access to the public sector in the highest levels of Government and in regional institutions. CAIC's activities generally have had favorable coverage in the media, although the organization's own communications program has been a subject of some considerable internal criticism. A recent assessment carried out on behalf of CAIC identified significant improvements which could be made in the cost-effectiveness of its own communications activities. CAIC has responded affirmatively to this assessment and is making needed changes.

II-4. Businessmen in the Eastern Caribbean regard CAIC as important to them because it often has freer access to governments than other private sector organizations, and because it is the only channel through which the private sector in the region can be effectively represented in regional and extra-regional trade negotiations. CAIC is often seen by businessmen as a supplement to -- and occasionally as a substitute for or alternative to -- involvement with their national level business organizations. In Grenada, a committee of businessmen (both CAIC members and non-members) reported to evaluators that CAIC had assisted them immeasurably in both policy analysis and policy advocacy during times of political turbulence. They were of the view that CAIC was in a unique position to assist the Government in resolving problems posed by a current split in leadership. In Trinidad, the view was expressed that a national umbrella organization for business associations was not required in that country because CAIC was able to perform any needed integrating functions which could not be worked out locally from a distance. In at least one case, a business person who had become alienated from his local business association saw CAIC membership as an alternative form of participation in business community activities.

The SEA Project has helped to soften the impression that CAIC's primary interest is in the region's large firms. The SEA project's practical assistance in improving SME business performance received high praise, along with CAIC's assistance in obtaining desired policy changes.

II-5. CAIC's internal management has been vastly improved as a result of the appointment of a Deputy Executive Director and a Financial Controller, and movement toward the objective of separating "baseline" (traditional business association) functions from development functions. Financial reporting, budgeting, and cost control systems are now in place. In view of the likelihood that resources will be reduced for some elements of its program (particularly NDF/WID funding and LADP), CAIC should review its monitoring systems with a view to regularly obtaining the best possible information pertinent to actual and prospective impacts of funding reductions on recipient institutions. CAIC should monitor arrearages and bad loan rates for NDF/WID loans specifically financed by A.I.D. funds as a matter of good practice. The talents of the personnel of the Finance Department in systems and financial analysis could be utilized to contribute to improvements in the monitoring system to better measure changes in financial conditions and strategies of its implementing institutions.

II-6. CAIC has followed three basic strategies to improve its viability: cutting costs, increasing revenues from membership dues, and increasing income from services. Although it has made progress in each of these areas, it is not yet certain whether the measures

taken thus far will close the gap. CAIC may be able to effect further savings -- or derive further income -- from the premises which it rents. It is conceivable that CAIC's new Jamaican President can help to expand the Association's membership in that country. Apart from deriving more income from dues and the services which it presently renders, any substantial new money-making venture undertaken by CAIC is likely to present downside costs and risks as well as upside benefits and opportunities.

One area worth consideration is that of providing services in the area of computers and computerization. There is a substantial market for the services of organizations and individuals who are skilled in providing computer services. CAIC has a potential threshold position deriving from (1) its successful computerization of its own finance functions; (2) computer networking activities envisioned as part of its export promotion project; (3) its involvement in computer familiarization training; and (4) its project monitoring system. With firm and imaginative leadership, CAIC might turn a threshold position into a money-earning asset.

Small and Medium Enterprise Assistance

III-1. RCU's overhead costs may be defined as the sum of four line items in the original project budget: (1) Regional Coordinator operating costs; (2) National Coordinator operating costs; (3) management support to the Regional Coordinator; and (4) project monitoring, audit, and evaluation. The relationship of these costs to program costs (monies moved to NDFs/WID and spent on SME interventions) defines a simple project overhead rate. The overhead/program cost relationships contained in the financial plan of the 1986 Project paper compare with actual results as follows:

	<u>1986</u>	<u>1987</u>	<u>1988</u>
Original Financial Plan	36.08%	40.75%	54.94%
Actual Expenditures	17.99%	21.94%	26.42%

Among the factors responsible for the much lower-than-expected overhead rates were (1) relatively tight cost control; (2) lower-than-projected staff costs; (3) expanded funding for the NDF/WID program; (4) delays in the start-up of the SME program; and (5) elimination of some costs of national administration when the National Coordinating Committee (NCC) idea was dropped from the program. The budget contained in the original project design apparently envisioned that RCU would expend substantial resources on sustainability issues and would achieve closure on such issues. While RCU certainly has been active in this area, it may well have committed fewer resources and made less progress than the project designers had projected.

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During the first three years of the project, RCU effectiveness was adversely affected by the conditions precedent requiring the formation of NCCs prior to undertaking national-level operations. Performance also was affected by the multiple responsibilities of the Regional Coordinator who doubled as CAIC's Deputy Executive Director for nine months. As the requirements of the SME program have mounted, it seems clear that RCU is understaffed. RCU should bring on board the second project officer envisioned for the unit in the project design. RCU's operating procedures are satisfactory, but the personnel of the unit would benefit from training in project management.

The project has had a favorable impact on local and regional supporting services for SMEs. That favorable impact is likely to increase as the SME program gathers momentum. In the past, SME's have lacked networks that are friendly to them and supportive of them. Because of the absence of prior assistance, the changes wrought by the project are highly visible and well-appreciated by recipients. The creation and use of a list of approved consultants, most of them local, who have been able to provide quality services to SME firms is in itself a significant step forward -- as is the designation and activation of NDI's.

The growing list of SEAP interventions carried out by regional professionals in combination with favorable reports by recipients suggests an expanded capacity to apply their skills to this target group. The Evaluation Team found evidence of positive results following interventions and the generation of financial returns that could be used for direct purchases of local supporting services in the future. However, it should be clearly understood that what SEAP has established is a fledgling service network. If RDO/C assistance were to cease in the near future, it is doubtful that the favorable impact on local and regional supporting services would be long sustained.

The Evaluation Team's field visits also showed that there have been beneficial social and psychological gains as well as favorable economic impacts in terms of exports and employment opportunities from the SME component of SEAP. With a few exceptions, the interventions were directed to firms who would otherwise have had great difficulty paying for the technical assistance on their own. However, a number of them -- as a direct consequence of the initial help -- probably could afford to pay for such assistance now.

Businesses assisted by SEA expanded sales, exports and employment. For example, in St. Lucia, a firm whose operations had been a net consumer of foreign exchange (assembling imported electronic components into kits sold in the domestic market) was transformed into a much more profitable export operation with SEAP funded training in circuit board assembly. The circuit board business employs almost five times as many people as the original kit

assembly operation, and all of the company's products are now exported.

In Dominica, the Leather Goods Cooperative received SEAP technical assistance as well as a working capital loan from the Dominica Working Capital Fund. This cooperative has managed to expand its markets both in and out of Dominica while keeping many craftsmen employed who otherwise might have lost income.

In Grenada, SEAP trained two employees of a bottled gas plant. The resulting increase in gas quality brought in new customers and expanded sales.

In St. Kitts, SEA training helped a bookstore owner modernize her physical layout and create more eye-catching displays. Sales increased.

In St. Vincent, SEA assistance helped a pasta manufacturer find export markets in Dominica.

SEA also has been active in helping business firms in the printing, furniture, apparel, and agribusinesses on several islands.

For the most part, the SEAP assistance has been directed to firms and business-people who have been considered as outsiders by the Caribbean business elite. As these businesses have expanded and become more profitable, SEAP has helped to change the attitudes of small businessmen towards their own destinies. In the process, their attitudes toward CAIC and their local business associations has changed. The availability of good business advice has ameliorated the sense that class and ethnic distinctions serve as serious barriers to business success in the Eastern Caribbean. Because putting a structure of support services for SMEs in place has improved recipients performance and it has energized entrepreneurial motivation, it has started to create its own market.

III-2. Most recipients of technical assistance and training expressed satisfaction with the quality and outcomes of the assistance provided to them. Most also said that they would not normally have been in a position to avail themselves of such assistance in the absence of the SEA program. Probably the most beneficial interventions have been the in-plant consultancies and training workshops which have provided "hands on" training and advice to company staff in the application of simple technologies. Strategic business planning assistance has focused on helping entrepreneurs to think about the future of the enterprises and to prepare business plans. Assistance in product-line pricing strategies, an area in which Caribbean manufacturers have been notably deficient in the past, is one to which SEAP should devote attention in the future.

III-3. CAIC's selection of National Delivery Institutions has been based on criteria which combine considerations of organizational competence and representativeness among types of Caribbean business institutions. The group is made up of four Chambers of Commerce and Industry (Dominica, Grenada, St. Kitts and St. Vincent), one Manufacturers Association (St. Lucia) two NDFs (Antigua and Montserrat, the latter is also a credit union) and the RCU itself (Barbados). The selections seem appropriate and appear to have been well accepted. NDI staffs all will need assistance and/or training as the SME program gathers momentum.

III-4. The pace of delivery of SME assistance has speeded up since the National Delivery Institutions started their activities in 1988. It is quite apparent, however, that (1) the SEA program functions are taking more of the time of NDI personnel than originally envisioned and (2) NDI personnel require training in carrying out their new functions. The NDIs appear to operate most effectively where, as in Grenada, they have an active outreach program or where, as in St. Lucia the NDI is closely identified with an SME constituency. The original SEA Project design budgeted substantially more funds for national level operations than has been spent to date, mainly for the now-defunct National Coordinating Committees. As the pace of delivery of services to SMEs accelerates, it is important that the NDIs acquire or be provided with access to the substantive skills and knowledge needed to carry out diagnostic, intervention packaging, and monitoring tasks.

III-5. The Dominica Working Capital Fund is an innovative program which was undertaken in September 1988 to provide working capital loans to firms unable to secure such financing from commercial banks. The program was undertaken at a time when local banks were highly liquid and thus more lenient than is normally the case. Thus the pilot program in Dominica has moved more slowly than anticipated. Only three loans has been made at the time the Evaluation Team conducted its field study.

One expectation of the fund designers was that the loans would have lower overhead costs per dollar than do NDF loans because less technical assistance would be required. On the basis of the limited evidence presently available, it is conceivable that the loans actually made will not result in higher net margins than those of conventional NDF loans. However, it is also possible that the program will turn out to have characteristics that would justify its replication elsewhere in the OECS.

The administration of the DWCF by the National Development Foundation of Dominica already demonstrates a high degree of professionalism despite the short length of time the fund has been in operation. The apparently high overhead costs per dollar probably can be reduced over time through measures which include:

- focusing lending on graduated NDFD clients with established track records; and
- charging interest premiums to clients with less impressive track records to take account of risk as a commercial bank would. The NDFD already has detailed credit histories for its microbusiness graduates.

The program appears to be quite useful and its clients highly enthusiastic. It has helped exporters and productive investors, and that is quite desirable from a macroeconomic point of view. The National Development Foundation of Dominica is quite capable of running the program at its existing or at an expanded level.

Two of the three loans had the anticipated pay-back period of six months. One, which had actually been arranged before the program took effect and was then "grandfathered," had a longer term. Ultimately, it may be desirable to move to "line-of-credit" or "overdraft" facilities, but the costs of such services would have to be carefully considered before any such changes are made. Until a clear case to the contrary is made, the six months pay back period should be retained.

Since the Dominica Working Capital Fund has been in operation for only a short time and the Scope of Work for this evaluation does not include the question of whether the program should be extended to other countries, we did not examine DWCF's experience thus far with the objective of recommending whether or not the program should be replicated elsewhere at this time. We believe that the originally scheduled mid-term review should be carried out to establish the basis for any decisions required in the near future. A description and analysis of the specific plan for expansion under consideration should be part of the basis of an informed decision.

III-6. RCU has supported four marketing research and training programs attended by 17 entrepreneurs engaged in agri-processing, crafts, furniture, footwear, printing and other fields. The program consists of two days of theory and two days of practical application. These programs have been successful to the extent that some participants complained that they received more leads and opportunities for orders than they could possibly handle. The approach taken deserves replication. However, it is particularly important that the NDIs develop sufficient diagnostic capabilities such that they do not select SMEs for training and technical assistance in markets that they are not ready to enter. It is also important that technical assistance be packaged in a fashion that provides recipients with follow-on assistance in production, quality control, or other areas important to exploiting marketing opportunities.

III-7. Although Women-in-development objectives and targets were not included in the project design, a review of achievements in this area nevertheless was incorporated in the Scope of Work for the present evaluation. CAIC data show that woman-owned businesses represented about 43% of a combined total of 593 training and technical assistance interventions. Participation rates by women in particular types of activities varied widely. Women represented 100% of the recipients of assistance in the field of interior decorating and 50% of trade show attendees. In the areas of the technical assistance in marketing, production, quality control and operation of equipment--women represented over 35% of the participants. In management (35% participation) and maintenance of equipment (30%) men received the predominant amount of the technical assistance.

Virtually all of CAIC's affiliate and corporate members are controlled and managed by men. However, women make up 66.67% of the NDF/WID staff, 71.43% of the NDI staff, and 57.14% of the RCU staff of CAIC as reported by CAIC.

Available data on NDF loan recipients show that women recipients ranged from a high of 96% of the loans extended by W.I.D. Limited (Barbados) to a low of 16% loans made to women in Montserrat. For the eight NDFs (excluding W.I.D. Limited), 35% of the loans went to women. Apart from WID, all other NDFs' loans to women were under 50% of total loans disbursed. The average principal amount of loans to men was higher than for women for most countries and most years. W.I.D. Limited has made an effort in recent years to include men in its lending portfolio.

The Evaluation Team did not find evidence of discrimination in loan processing. Decisions on loan applications appear to have been made on their merits.

C. RECOMMENDATIONS WITH RESPECT TO THE PROJECT'S FUTURE

Our assessment of the SEA Project and of CAIC is quite favorable. Nevertheless the future is bearing down on the SEA Project with considerable velocity and threatening to bring serious problems in its wake. These problems center on (1) a potential SEA Project budget overrun of considerable size; (2) sustainability issues affecting each of the CAIC functions presently being funded by AID; and (3) RDO/C's long-term relationship with CAIC as an implementation organization. We believe that these issues deserve attention soon. Accordingly, at the risk of going well beyond our mandate and the subject matter we have analyzed, we offer the following opinions.

1. RDO/C should add sufficient funds to the project budget to enable the SME program to reach its original targets by its

PACD. If the performance of the SME program continues to be satisfactory, RDO/C should consider extending the program well beyond its current PACD.

Total spending on the SEA Project has lagged well behind the original financial plan, but we believe that the underlying dynamics of the SEA Project are rapidly pushing it toward a prospective overrun on the order of \$1.8 million. The project already has exceeded its targets for micro-enterprises but it is unlikely to come close to the targets established for Small and Medium Enterprises (SMEs) before current project funds are exhausted.

SME interventions have been generally quite successful in harnessing the energies and increasing the competence of an aggressive and adaptable rising class of business entrepreneurs. SEA has demonstrated that it can help these entrepreneurs create jobs, expand exports, and increase productivity. Prospects that the region can finally overcome its chronic dependence on outside assistance may well hinge on the performance of the SME target group which the SEA Project has been able to galvanize. It is recommended that USAID add funds to the project so that at the very least the original SME targets can be achieved. At the present pace the project will run out of resources before PACD and before the SME targets are achieved. Funding beyond the originally targeted SMEs should also be considered if these interventions continue to be successful.

2. RDO/C and CAIC should consider recovering a larger proportion of the costs of assistance from SMEs by means of loan financing.

At present, 75% of SEAP technical assistance is being underwritten in the form of grants. Many of the SMEs can afford all, or a larger portion of, the full cost of assistance but do have short term cash flow problems. The SEAP contribution for these SMEs should be in the form of loans. To avoid additional paperwork at the RCU or in non-financial NDIs, the loans might be administered through a special window in the development foundations, similar to that used by the Dominica Working Capital Fund.

3. CAIC and RDO/C should reach agreement on strategies for moving toward sustainability of each of the seven functions which RDO/C is presently supporting through the SEA Project.

Project Paper Amendment No. 1 (1987) took a significant step forward by addressing issues of sustainability and self-sufficiency concerning CAIC "core functions" in a direct and comprehensive way. But the financial analysis which it contained had three limitations. First, it did not clearly distinguish among the three types of functions within the "core function" basket: business

association "baseline" functions, development functions, and support of administrative positions needed for compliance with AID requirements. Second, it assumed a cut-off of AID funds in 1991 which in fact may not be in accord with RDO/C's best interests. Third, it treated the sustainability issue as though it were a ball in the court of CAIC, rather than a form of "cooperation game" requiring a common strategy for the most effective solution. Recognizing that RDO/C may not be able to make binding commitments for the future, they nevertheless should develop a consensus on realistic strategies for dealing with RDO/C support for each of the following:

- a. Membership Development
- b. Local Affiliat Development
- c. Policy Advocacy
- d. Training
- e. NDF/WID Program
- f. SME Program
- g. Administration

Our recommendations with respect to the SME program are set forth above. We set forth below some suggested approaches to issues of budgeting and sustainability as they affect other functions and CAIC's role as an implementing organization. Conceivably these suggestions could be used as an agenda for discussions between RDO/C and CAIC on strategies for the future.

4. We regard membership development as a candidate for early graduation from AID funding. We suggest that any new RDO/C funding should be in the form of "challenge grants" which compensate CAIC only to the extent that it raises more membership funds on a cash basis than it has in prior years.

In 1980, CAIC's revitalization manifesto "Creating the Future" described an organization which would: "in a period of four years eliminate the need for grants .. and permit the Association to be adequately financed on a self-sustaining budget." While it may not be in the interest of either CAIC or RDO/C for CAIC to eliminate grant funding of development functions in the near future, both organizations can benefit from a policy which mandates that CAIC must cover the costs of its baseline functions from dues. If RDO/C wishes to give further assistance in the area of membership development, we suggest that it take the form of a grant which matches increases in amounts of dues collected over the previous year up to an established maximum. That approach requires improved CAIC fund raising performance, and still permits RDO/C to designate the purposes for which the funds it provides are to be used. If CAIC can not meet its current baseline costs on a regular basis, its "market" will have spoken, and it should cut them back.

5. We also regard local affiliate development as a candidate for early graduation from AID funding. If RDO/C wishes to provide additional funding, it likewise should take the form of "challenge grants."

The Local Affiliate Development Program has shown a mixed performance over the years. As a subsidy program for national business associations, LADP does not provide effective incentives for self-sufficiency. There does not appear to be a long-term plan for shifting the costs of LADP from AID funding to the CAIC membership at large.

Roughly one fifth of the funds devoted to LADP have been expended on activities within the "human resource development" category. A case for continuing such activities can be made on grounds other than local affiliate development alone. A case also can be made for the continued development of those CAIC affiliates which serve as NDIs for the SEA program. However, given the socio-economic characteristics of most affiliate members, we find no persuasive rationale for continuing the remainder of this program beyond PACD.

The program binds local affiliates to CAIC to some degree, but it also leads to some ill-will concerning the sizes of local affiliates' subsidies and the extent of CAIC services provided. "Challenge grants" conditioned on increases in the levels of support which affiliate members provide to their own organizations, could be used to bring this program to a conclusion on a positive note. However, given multiple demands on limited RDO/C resources, we basically agree with the position taken in the Project Paper Amendment: CAIC's Affiliates should become self-sustaining by PACD. LADP should be subjected to the test of its marketplace.

6. Policy advocacy is a business association baseline function requiring expertise which RDO/C may wish to utilize from time to time. We suggest that RDO/C graduate this function from long-term funding at PACD, or fund it through "challenge grants". The costs of time spent by the Executive Director on AID-mandated development or policy reform activities, including full overheads, should be compensated on a case-by-case basis.

There is considerable overlap between CAIC's objectives and U.S. objectives as a business association in the region, and it can be argued that assistance to CAIC's policy advocacy activities is more cost-effective than other RDO/C approaches to policy reform in the region. But it should be recognized that the involvement of the Executive Director (CAIC's chief advocate) in development CAIC's development activities can serve AID's interests. Clearly the Executive Director's skills can be critical in the effort to attract funds from other development agencies to sustain functions which were started with AID funding. From the viewpoint of attaining

self-sufficiency in baseline functions, however, it would be best for CAIC to rely on its members to underwrite the full costs of policy advocacy activities undertaken on their behalf, and for RDO/C to pay full cost for what it wants and needs when the Executive Director's high-impact services are required.

7. Training is an area in which the CAIC staff has shown considerable competence and in which RDO/C has important interests. CAIC projections show rising revenues and close to break-even performance in the reasonably near future. Achieving viability within the CAIC matrix or as a separate CAIC subsidiary will involve some significant changes on the part of the unit. Making those changes will require help from RDO/C.

The Training Department has shown growing if modest revenues. Nevertheless, its services require subsidy in almost every case, despite the fact that it serves some commercial clients. CAIC's training unit is heavily oriented toward development assignments and is fundamentally dependent on development money. Under the right conditions, we believe that the region could support a service entity in the training field. The most fundamental requirement is that development agencies, RDO/C among them, be prepared to pay full overheads, including the costs of seeking new business elsewhere. As long as development agencies periodically subsidize the costs of training supplied to most Caribbean businesses, it will be very difficult to convince these businessmen to pay full costs. As long as development agencies prefer grant funding of organizational units to paying overheads for services rendered, sustainability apart from them will be very hard to achieve. However, an independent training unit could be created and sustained with the understanding and support of the donor community. Ideally, a study of training requirements throughout the region and agreement on a strategy for meeting these requirements through a variety of services suppliers should be a predicate to such a plan.

8. It is virtually certain the NDF/WID Program cannot become financially self-sufficient in its present form although it could sustain itself with the assistance of a number of donors. If the NDFs are not to become heavily and chronically dependent on RDO/C, a realistic strategy for declining funding is required. RDO/C should consider shifting its funding of NDF/WID loans from a grant to a concessional loan basis.

As long as NDFs/WID are structured to provide loans and technical assistance to microenterprise clients whose financial requirements are otherwise unbankable, they are unlikely to be able to cover their administrative costs from their own revenues. The reasons are (1) the bankability criterion means that their best clients eventually become clients of the commercial banks, and (2) the high cost of loan officer technical assistance needed to make sure that

the microbusinesses do not fail. Default and delinquency rates rise without this type of intervention. USAID and other donors will need to continue to support at least the TA component of the development foundations expenses for the foreseeable future.

It is conceivable that the availability of RDO/C grant funding for loans has encouraged some NDFs to expand loan volume and lower loan quality. If AID were to convert its loan funding to a concessional loan basis at rates slightly above the concessional rates of other development lenders, a desirable diversification of funding could occur along with additional incentives for maintenance of the quality of the loan portfolio.

RDO/C's total funding of NDFs/WID doubled between 1986 and 1987, and rose slightly from 1987 to 1988. The NDF/WID program is a meritorious one which is well-regarded in most of the Eastern Caribbean countries in which it operates. Sooner or later, the Mission will have to make a decision about whether it actually wishes to reduce the resources it supplies to one of its most popular and successful projects. If RDO/C is serious about reducing the dependence of the microenterprise organizations on its funding, the Mission should develop, discuss and apply a fair and realistic strategy for achieving this result. Given recent history, it is hard to conceive that AID would not continue some NDF/WID funding beyond 1990. A reasonable approach beyond 1990 would be to limit such funding to support of administrative costs.

9. RDO/C's support of improved CAIC administration and organization functions principally serves RDO/C's interests in effective compliance with AID regulations and requirements. Extensive administrative capacities are not required by other donors and would not be sustained by CAIC's membership in the absence of support from development funding. RDO/C should plan to sustain a suitable level of administrative support at CAIC as long as RDO/C implements large development programs through the Association. Both organizations would benefit if each were to take a long view of its relationship with the other.

The progress of CAIC in improving its handling of AID regulations and requirements has been outstanding, as has the adjustment of the CAIC organization to its dual baseline and development functions. The long term interests of both organizations can best be served by building on the progress that has been made thus far.

CAIC has achieved the position of a respected voice in the region. It's present goal is to consolidate that position. It's role as an executing agency for various USAID and other development programs supports its objectives. In its execution of the SEA project, CAIC has shown a blend of flexibility and practicality which would be useful in the execution of other projects. While care

should be taken not to overload the organization or divert it from its fundamental role as the spokesman for the regional private sector, we believe that the Association can and should evolve in a way that permits it to take on more development projects. The main desiderata are:

- (i) A structure which, insofar as practical, separates responsibility for the execution of projects funded by development agencies from responsibility for CAIC's baseline functions as a business association.
- (ii) Fully allocated overhead costs to any new projects to allow the organization to tool up for the additional projects.
- (iii) A staff that is fully trained especially in the area of project management.

In our view, these three desirable elements are well within CAIC's present reach.

APPENDIX A

Scope of the Evaluation

The Contractor, in conducting the evaluation of SEAP, will specifically address the following:

CAIC - General

1. Examine the operations of CAIC's organizational structure and assess its suitability for and efficiency in program delivery, particularly services needed by its members.
2. Assess the image and reputation of CAIC among its members and the wider community including other private and public sector organizations.
3. Assess CAIC's progress towards improving its internal management systems and self-sufficiency, and
4. Examine the appropriateness and effectiveness of the delivery mechanisms chosen and their responsiveness to the credit, technical assistance and training needs of the small and medium enterprises.

CAIC - Specific

1. Analyze the appropriateness of the CAIC Board Committee structure for effective management of the organization's affairs and make recommendations for its improvement.
2. Review the operations of the various Board Committees and make recommendations for improving the management of CAIC at the Board level.
3. Obtain public impressions of the performance of CAIC as a private sector representational organization.
4. Obtain member perceptions of the role of CAIC and its ability to function in a dynamic environment.
5. Analyze actions taken by CAIC to improve internal management systems and make recommendations for further improvements. Comment on use made by CAIC of the results of annual compliance audits.
6. Analyze strategies developed and actions taken by CAIC to improve its financial viability and make recommendations for improvement.

Small and Medium Enterprise Assistance

1. Examine the operational procedures of the RCU for implementing the Small Enterprise Assistance components of the project, assess the efficiency of the unit and make recommendations for its improvement. Comment on the extent to which the unit has impacted on local and regional supporting services for SMEs.
2. Assess the impact of the technical assistance brokered by the RCU to date and highlight lessons which may be of value to the NDI delivery mechanism.
3. Examine criteria used by CAIC for selection of the National Development Institutions and assess the appropriateness of the national institutions chosen.
4. Examine the performance of the NDIs in processing technical assistance applications, selecting appropriate recipients for TA, monitoring the execution of the TA, and make recommendations for improvement.
5. Review the procedures and performance of the Pilot Working Capital Fund in Dominica and make recommendations for its improvement.
6. Assess the approach taken by RCU to the delivery of marketing assistance to SMEs and make recommendations for improvements and replicability.
7. Assess the extent to which women have benefitted, and in particular, address the following concerns:
 - (i) Are there specific types of projects for which women requested assistance? Were they in areas considered traditionally for women?
 - (ii) What was the average size of loans for women as compared with men?
 - (iii) Were any of the credit-related actions or requirements, such as the marketing of the credit program, the loan terms, or the application process, discriminatory against women?
 - (iv) To what extent were women beneficiaries of technical assistance and was it necessary to design special training programs for them?

APPENDIX B

THE EVALUATION TEAM

The Evaluation Team consisted of Mr. Harvey Lerner, Project Supervisor; Dr. Qaiser Khan, Team Leader; Mr. Aubrey Armstrong, Management Specialist; Ms. Barbara Phillips, Institutional Economist; and Ms. Bonita Morgan, Evaluation Specialist. Ms. Morgan of the Caribbean Association of Industry and Commerce served on the Team by agreement with CAIC.

Mr. Harvey Lerner is Louis Berger International Inc.'s Senior Private Sector Program Evaluation Specialist. He was principal author of the Executive Summary and Chapters I, II and VII of this report. Mr. Lerner served as Resident Project Manager in Bridgetown, Barbados for LBII's evaluation of RDO/C private sector activities. He was responsible for evaluation, monitoring and project design activities for RDO/C's private sector program.

Mr. Lerner joined LBII in 1981 and has served as Director of Industry Studies since then. From 1979 to 1981, he was Regional Director of Litigation Consulting for Coopers & Lybrand. Earlier he served as Vice President for Consulting for Checchi and Company, where he was heavily involved in industrial development programs and in evaluation of USAID projects. He also directed a Checchi subsidiary specializing in management consulting to associations and non-profit institutions. He also has practiced law in Worcester, Massachusetts. Mr. Lerner graduated in 1954 from Wesleyan University in Middletown, Connecticut, where he was Phi Beta Kappa. He holds a J.D. degree from the Harvard Law School and a Master of Laws degree from the Georgetown University Law Center. He did graduate work in Business Policy at Harvard Business School and in Economics at Georgetown University.

Dr. Qaiser Khan has served as Senior Economist and Institutional Analyst with LBII since 1985. He was principal author of Chapter IV, and contributed to Chapters II, V and VII of this report. He has led evaluations of USAID projects worldwide. The primary emphasis of his project experience has been increasing the participation of the private sector through investor identification, feasibility studies, institutional and policy evaluations. In the Caribbean Dr. Khan has studied the effects of public policies on private sector investment levels and productivity, and development of private sector financial institutions. He also has experience in development of export processing zones, agroindustrial development, agricultural production and marketing studies. Prior to joining Louis Berger International, Inc., Dr. Khan was an Associate for the Center for Analysis of Developing Economies at the University of Pennsylvania; an Assistant Professor of economic Development and Agricultural Economics; and a World Bank Consultant. He has a Ph.D. and an M.A. in Economics and an M.A. in Demography from the University of Pennsylvania.

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Dr. Aubrey Armstrong is a Management Development Specialist with over 20 years experience in management consulting, education and training in the Caribbean, Africa, Europe and the U.S. Dr. Armstrong also specializes in Administrative Reform, Human Resources Development and Industrial Relations. He is now Director of his own management consulting organization; prior to this he served as a United Nations Advisor in Management Training and Development Administration to the Caribbean Centre for Development Administration. Dr. Armstrong has been an advisor to private and public sector organizations in every Commonwealth Caribbean country, and to most regional and international agencies. He has a Ph.D. from the University of Washington in International Business and Organizational Theory, and an MBA from the Inter-American University of Puerto Rico.

Ms. Barbara Phillips is an Institutional/Policy Analyst with Louis Berger International, Inc. Since 1983 she has worked on design, implementation and evaluation of research and planning projects for USAID. She has experience in policy evaluation, focussing on the impact of public policy on private sector development. In the Caribbean, Ms. Phillips was involved in development of women-owned micro-enterprises, including training women in management, planning and marketing skills necessary to increase returns on investments. Ms. Phillips has B.A. in Psychology and has done graduate studies towards a Master's in Public Administration at George Washington University.

Ms. Bonita Morgan is Senior Training Advisor for Training and Affiliate Development for the Caribbean Association of Industry and Commerce (CAIC), Barbados. She is responsible for developing, administering and coordinating CAIC-sponsored training programs, and for monitoring and evaluation of regional private sector training programs. Prior to joining CAIC, she was a Trainer at the U.S. Peace Corps Training Center in Barbados. She has worked with Berger project evaluation teams previously on the RDO/C private sector program and on an evaluation of AID's worldwide Water Management Synthesis Projects. Ms. Morgan has an MA in Latin American Social and Economic Development from Georgetown University.

APPENDIX C

FOUR SCENARIOS/MODELS

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Economic/Financial Analysis

Background

The economic analysis of this project is complicated by the fact that the proposed amendment does not create a new project, but rather the merger of two ongoing projects with the effective extension of one of them. In one sense therefore, "nothing new" will occur except the extension of CAIC and SEA. That is, the new SEA is essentially the sum of its (previous) parts, and while there may be some synergy that will make the new structure more efficient than the present divided one, the synergistic effect is impossible to quantify at this time. The economic/financial analysis therefore focuses on the distinct parts of the project.

An economic analysis of the SEA component was undertaken in preparation of the SEA project paper. Since that was done very recently and the proposed SEA budget is virtually unchanged by the amendment, the earlier analysis is presumed to still be valid. The economic analysis of SEA relates to the Goal of the present addendum to the original LOGFRAME and can be found in the original SEA Project Paper.

For this amendment we focus on the CAIC component and upon the economic viability of extending the PSIAP activity under CAIC. The Project Purpose section of the LOGFRAME presents the new project sub-purpose and emphasizes three elements: increased vitality and self-sufficiency of business associations; changes in laws and regulations; and, expanded and improved CAIC services. Corresponding to this purpose are two end-of-project achievement indicators: financial self-sufficiency as evidenced by increasing trend in dues paid, number of associations with growing budgets, and, increasing support by dues-paying members; and, changes in tax and investment laws. Anticipated project outputs include those in: policy advocacy, membership, affiliate development, export development, project design and evaluation, and CAIC management and administration.

Analytical Framework

The amalgam of mostly immeasurable institution-building and development outputs from this project makes it difficult to apply a straightforward a priori benefit-cost test to the amendment. Accordingly, an alternative test of economic viability is used, based on the premise that as a private sector institution CAIC must ultimately meet the test of the market. The consumers of CAIC's

services will ultimately judge the worth of the institutional changes wrought by this project. The acid test of its economic worth will therefore be the effective market demand for its services as manifested by the willingness of beneficiaries to pay membership dues and fees for special services or to make voluntary contributions to support CAIC. Beneficiaries will pay no more for CAIC's services than those services are worth to them at the margin. CAIC's revenues from dues, fees and contributions will therefore be the measure of benefits. If CAIC performs its intended role well, revenues will equal or exceed costs and the institution will either break even or show a surplus. Ipsa facto, profitability will be the manifestation of a positive benefit/cost ratio, so long as all inputs are paid their opportunity costs. Conversely, if the beneficiaries are not willing to pay an amount at least equal to the costs of operation, the imputed benefit/cost ratio will be negative, and the institution judged to be economically as well as financially unviable.

CAIC's future financial viability is therefore inexorably intertwined with the economic viability of the project. The institution-building aspects of the project will be economically justified if CAIC is financially self-sufficient (or has made significant strides toward financial self-sufficiency) by the end of the project period.

It is impossible to judge a priori with any degree of certainty whether CAIC will be financially self-sufficient several years hence. It is, however, possible to make some judgements about the likelihood of that happening, thereby permitting a rough judgemental "benefit/cost" assessment at this point. For that reason the analysis that follows presents several scenarios that help to assess the likelihood that CAIC will be able to achieve self-sufficiency under each of these scenarios. Moreover, although it is at this time impossible to determine the final outcome, it will be possible during the course of the project to measure progress toward self-sufficiency. For that reason, constant monitoring of that progress will be a critical element in assuring the economic effectiveness of the project.

To reiterate, the "acid test" of self-sufficiency outlined above is a valid test, and the one to be used, if all benefits from the institution's activities accrue only to two groups: (a) paid up members and (b) paying customers for training and other specific services. 11

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The "acid test" of economic viability must be modified if the services provided by CAIC have the characteristics of a "Public Good" or if they generate positive economic externalities to nonmembers. For these services, revenues from dues and fees would understate the benefits of the organization because "free riders" would be able to enjoy valuable benefits without having to pay for them. This might occur, for example if CAIC were successful in promoting lower taxes or the removal of a restrictive regulation. "Free riders" would be able to enjoy the benefits without having to join the organization or to pay dues. For other CAIC activities, this need not pose a problem since "free riders" can be excluded from other services (e.g., by restricting training or technical assistance to association members).

Governments solve the free rider problem through taxation, but voluntary organizations do not have this option. Lacking the power of coercion, such organizations therefore must resort to persuasion to acquire funds from outside their memberships or their immediate clienteles. In this second model therefore, the argument is that (as in the case of a money-losing art gallery or a grant-funded "think tank") there are benefits that transcend the mere willingness to pay on the part of a few direct clients, ergo the need for donations.

The test of economic viability based on the second model is not the strict "acid test" suggested earlier but rather whether the organization is likely to be able to cover its costs through fees and dues plus voluntary donations from outside organizations (i.e., it will not necessarily be self-sufficient, based on its own revenues, but will be self-sustaining, with the aid of funds from outside sources). In cases such as this, the organization has reached an operating level where the worthiness of its efforts are sufficiently apparent to outsiders that donations and grants can be obtained via the organization's own promotional efforts, much in the way that an opera company would generate support beyond ticket sales or that the Red Cross or a PVO would solicit support. In this case, "self-sustainability" means "no longer dependant on AID." (The criterion excludes future follow-on AID funding to avoid tautology and self-fulfilling prophecy).

To summarize, the final economic test for a private organization is its ability to survive financially in the market for its services. In the case of CAIC this would be judged by its success in increasing its financial self-sufficiency, moving ultimately toward eventual complete financial self-sufficiency. In



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the first instance, this is measured by paid-up membership, supplemented by fees for specific services sufficient to cover the costs of operation. If externalities or "public goods" are produced, the test of financial self-sufficiency is relaxed to include CAIC-precipitated external contributions that can foster self-sustainability.

Elements of each model apply because CAIC offers two types of services. Because some, such as training and technical assistance, are not public goods every effort should be made to cover the cost of providing those services through fee for service. Not to do so will result in a misallocation of resources, since users tend to overutilize an underpriced resource. Other activities either have some public good elements or generate some externalities. To the extent that the cost of providing these services cannot be covered by dues and fees the organization must generate funds from other sources, including donors.

Calculations

The probability of achieving financial self-sufficiency depends upon the costs of delivering CAIC's services. That in turn depends upon the scale of activity. The scenarios below project the costs of operation for different levels of CAIC activity, and permit an assessment of the revenues that would be required to cover those costs.

In all of the scenarios monetary data from 1991 onwards are expressed in constant 1990-91 dollars. By disregarding inflation factors the projection give a clearer picture of the required growth in membership dues and the full extent of any cost cutting exercises which will be undertaken.

Currently non-USAID donors are providing funds for specific CAIC projects but there is no certainty that this funding will continue after 1990-91. For these projects both the revenue and the associated costs have been excluded from the projections (The outcomes of the scenarios are not significantly affected because the revenues are tied to the specific expenditure items the revenues disappear if the expenditure category is withdrawn, and vice versa).

Since the 1981 restructuring of CAIC there has been no consistent pattern of growth in membership revenue upon which the scenario projections could be based with any degree of confidence. In the first four years the levels of membership and hence revenues

grew impressively. In 1985 and 1986 the number of members remained at the 1984 level but there was actually a decrease in paid up dues. CAIC itself has projected an annual growth in membership revenues of approximately 6% between 1987 and 1991. This target appears ambitious but achievable if CAIC makes this an area of management priority. This same growth figure of 6 percent per annum has been used in the scenario projections as a best estimate of an attainable level of growth in membership revenue.

Scenario 1.

This model assumes that CAIC would maintain the same level of operation after AID funding ceases as it will during the course of the project and that self-sufficiency will be achieved entirely through earned revenues and membership dues. The projected budgets below show the cost of operation for the first five years after the project. Since some of the costs during the project period are in fact costs imposed by the need to comply with AID requirements, operating costs of a self-sufficient institution would be somewhat reduced. Therefore a portion of the overhead costs, particularly those under the Administrative line item, will decrease. Under this scenario the total cost of operation for CAIC in 1991-92 would be \$703,000. It is assumed that at least the direct costs of training and technical assistance (salaries, materials) will be covered by user fees. Minimum collection of user fees are therefore estimated to be \$94,000. The projection shows that under this scenario \$576,000 would need to be collected as membership fees in 1991-92. This represents an increase of 43% over the budgeted membership revenue for the 1990-91 year if self-sufficiency is to be achieved, assuming as we have that dues per member remain unchanged. Subsequent to 1991-92, membership dues would have to remain at this increased level to finance CAIC's continuing costs at the current level of operations. It appears unlikely that CAIC will be able to achieve this substantial increase in paid up membership in just one year (i.e., by the "acid test" measure, a self-sufficient institution at such a high level of activity seems improbable).

Scenario 2.

This scenario is the same as number 1, except that a portion of the costs in excess of the training and T.A. costs are assumed to be covered by non-USAID donors. That is, it represents a self-sustainable, rather than a self-sufficient, institution, operating at the high level of activity achieved during the project. As in the first case, user fees will need to be \$94,000. If CAIC were to achieve an annual growth in membership dues of

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approximately 6%, \$166,000 would remain to be obtained from non-USAID donors in 1991-92. Required donor assistance would then decrease every year until 1995-96 when only \$31,000 would be needed. This high level of non-specific donor funding, particularly in the first year after USAID funding has ceased, seems unlikely to materialize based on CAIC's past experience, so that self-sustainability, like self-sufficiency, is improbable at that high level of activity unless donors can be persuaded to give general, rather than project-specific, assistance.

Scenario 3.

This is a minimalist scenario, in which CAIC operations are sharply scaled down from current levels. It is assumed that such an institution would focus solely on policy advocacy and membership development. It is estimated that minimum staff requirements for this level of operation would be about 5 full-time equivalents, composed of professional and administrative staff, and one FTE equivalent of short-term specialized assistance. Operating costs of this scaled-down operation would be \$485,000 in 1991-92. Dues and membership fees would therefore need to increase by approximately 13% between 1990-91 and 1991-92. Subsequently these dues would have to be maintained at this level (with a margin for a small decrease of approximately 5% in 1993-94) to cover these core costs. Assuming that short-term financing (e.g. overdraft) is available to CAIC, it is likely that this level of membership can be achieved, and therefore possible for CAIC to survive as a minimalist independent institution without donor support. Training and technical activities could be added to this scenario if they were fully self-financing. To the extent that external general funding sources can be found, the minimalist scale could be expanded and yet allow the institution to be self-sustaining.

Scenario 4.

In this model, CAIC is assumed to retain its present functions, but to operate each of them in a scaled-down manner, constrained by the ability to generate membership dues. It is assumed that training and TA will not be provided except at fees that fully cover costs. The level of training activity (and the size of that element in the budget) will expand or contract according to the demand for the services. With that component fully funded, the focus shifts to the other activities, which are assumed to expand only to the extent that the growth in membership fees will permit. As already discussed, it is not unreasonable to assume that paid up membership can increase by approximately 6% per year from

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present levels if sustained and vigorous membership recruitment is maintained. Based on this scenario the revenues generated in the first two years after cessation of USAID funding (i.e., 1991-92 & 1992-93) would not even be sufficient to cover the core costs of the institution without scaling down its operations.

In summary, it is unlikely that this project will result in a private sector institution operating at the level to be achieved during the grant period that will be able to meet the "acid test" of self-sufficiency in the market. However, it is likely that a minimalist institution could be self-sufficient at the end of the project period, and that a self-sustaining and somewhat larger than minimalist CAIC is likely if "untied" external funding can be found to cover general expenses. The scenarios above suggest that an institution with an annual budget of approximately \$600,000 per year and a staff of 5 to 7 FTE would probably be able to attract sufficient members and donors to be viable over the long term.

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CAIC REVENUES & COSTS - SCENARIO # 1

	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96
REVENUES									
MEMBERSHIP DUES	337	357	377	401	576	576	576	552	552
BANK INTEREST	6	7	9	10	10	10	10	10	10
GRANTS:									
USAID	500	500	450	400	0	0	0	0	0
OTHER	53	142	132	122	0	0	0	0	0
PROJECT REVENUES	77	74	79	77	23	23	23	23	23
TRAINING REVENUES	2	4	6	7	94	94	94	94	94
TOTALS	975	1,084	1,053	1,017	703	703	703	679	679
% increase in dues		5.9%	5.6%	6.4%	43.6%	0.0%	0.0%	-4.2%	0.0%
COSTS									
ADMINISTRATION									
EMPLOYMENT	217	246	246	226	164	164	164	164	164
OVERHEAD	44	56	59	61	48	48	48	48	48
CONTINGENCY	26	26	18	9	9	9	9	9	9
TRAINING									
EMPLOYMENT	83	94	94	94	94	94	94	94	94
OVERHEAD	27	32	34	35	28	28	28	28	28
OTHER	89	67	57	52	0	0	0	0	0
ERAD									
EMPLOYMENT	83	110	110	110	110	110	110	110	110
OVERHEAD	34	40	42	44	35	35	35	35	35
POLICY & BUS. ADVOCACY	21	40	36	32	32	32	32	32	32
OTHER	19	89	89	89	20	20	20	20	20
CAD									
EMPLOYMENT	77	81	81	81	81	81	81	81	81
OVERHEAD	34	39	41	43	35	35	35	35	35
LAMP & MEMBERSHIP DRIVE	83	56	56	56	6	6	6	6	6
OTHER	48	20	20	20	0	0	0	0	0
OTHER	90	88	70	65	41	41	41	17	17
TOTALS	975	1,084	1,053	1,017	703	703	703	679	679

CAIC REVENUES & COSTS - SCENARIO # 2

	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96
REVENUES									
MEMBERSHIP DUES	337	357	377	401	425	450	477	505	536
BANK INTEREST	6	7	9	10	10	10	10	10	10
GRANTS:									
USAID	500	500	450	400	0	0	0	0	0
OTHER	53	142	132	122	166	141	114	62	31
PROJECT REVENUES	77	74	79	77	23	23	23	23	21
TRAINING REVENUES	2	4	6	7	94	94	94	94	94
TOTALS	975	1,084	1,053	1,017	718	718	718	694	694
% Increase in dues		5.9%	5.6%	6.4%	6.0%	5.9%	6.0%	5.9%	6.0%
COSTS									
ADMINISTRATION									
EMPLOYMENT	217	246	246	226	164	164	164	164	164
OVERHEAD	44	56	59	61	63	63	63	63	63
CONTINGENCY	26	26	18	9	9	9	9	9	9
TRAINING									
EMPLOYMENT	83	94	94	94	94	94	94	94	94
OVERHEAD	27	32	34	35	28	28	28	28	28
OTHER	89	67	57	52	0	0	0	0	0
ERAD									
EMPLOYMENT	83	110	110	110	110	110	110	110	110
OVERHEAD	34	40	42	44	35	35	35	35	35
POLICY & BUS. ADVOCACY	21	40	36	32	32	32	32	32	32
OTHER	19	89	89	89	20	20	20	20	20
CAD									
EMPLOYMENT	77	81	81	81	81	81	81	81	81
OVERHEAD	34	39	41	43	35	35	35	35	35
LADP & MEMBERSHIP DRIVE	83	56	56	56	6	6	6	6	6
OTHER	48	20	20	20	0	0	0	0	0
OTHER	90	88	70	65	41	41	41	17	17
TOTALS	975	1,084	1,053	1,017	718	718	718	694	694

CAIC REVENUES & COSTS - SCENARIO # 3

	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96
REVENUES									
MEMBERSHIP DUES	337	357	377	401	452	452	428	428	428
BANK INTEREST	6	7	9	10	10	10	10	10	10
GRANTS:									
USAID	500	500	450	400	0	0	0	0	0
OTHER	53	142	132	122	0	0	0	0	0
PROJECT REVENUES	77	74	79	77	23	23	23	23	23
TRAINING REVENUES	2	4	6	7	0	0	0	0	0
TOTALS	975	1,084	1,053	1,017	485	485	461	461	461
% increase in dues		5.9%	5.6%	6.4%	12.7%	0.0%	-5.3%	0.0%	0.0%
COSTS									
ADMINISTRATION									
EMPLOYMENT	217	246	246	226	154	154	154	154	154
OVERHEAD	44	56	59	61	48	48	48	48	48
CONTINGENCY	26	26	18	9	9	9	9	9	9
TRAINING									
EMPLOYMENT	83	94	94	94	0	0	0	0	0
OVERHEAD	27	32	34	35	0	0	0	0	0
OTHER	89	67	57	52	0	0	0	0	0
ERAD									
EMPLOYMENT	83	110	110	110	70	70	70	70	70
OVERHEAD	34	40	42	44	35	35	35	35	35
POLICY & BUS. ADVOCACY	21	40	36	32	32	32	32	32	32
OTHER	19	89	89	89	20	20	20	20	20
CAD									
EMPLOYMENT	77	81	81	81	51	51	51	51	51
OVERHEAD	34	39	41	43	25	25	25	25	25
LADP & MEMBERSHIP DRIVE	83	56	56	56	6	6	6	6	6
OTHER	48	20	20	20	0	0	0	0	0
OTHER	90	88	70	65	35	35	11	11	11
TOTALS	975	1,084	1,053	1,017	485	485	461	461	461

CAIC REVENUES & COSTS - SCENARIO # 4

	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96
REVENUES									
MEMBERSHIP DUES	337	357	377	401	425	450	477	505	537
BANK INTEREST	6	7	9	10	10	10	10	10	11
GRANTS:									
USAID	500	500	450	400	0	0	0	0	0
OTHER	53	142	132	122	0	0	0	0	0
PROJECT REVENUES	77	74	79	77	23	23	23	23	22
TRAINING REVENUES	2	4	6	7	94	94	94	94	94
TOTALS	975	1,084	1,053	1,017	552	577	604	632	666
% increase in dues		5.9%	5.6%	6.4%	6.0%	5.9%	6.0%	5.9%	6.0%
COSTS									
ADMINISTRATION									
EMPLOYMENT	217	246	246	226	140	154	154	170	170
OVERHEAD	44	56	59	61	33	36	38	44	44
CONTINGENCY	26	26	18	9	5	5	5	5	5
TRAINING									
EMPLOYMENT	83	94	94	94	94	94	94	94	94
OVERHEAD	27	32	34	35	20	20	20	20	20
OTHER	89	67	57	52	0	0	0	0	0
ERAD									
EMPLOYMENT	83	110	110	110	80	85	100	100	100
OVERHEAD	34	40	42	44	20	23	31	31	31
POLICY & BUS. ADVOCACY	21	40	36	32	32	32	32	36	36
OTHER	19	89	89	89	0	0	0	0	0
CAD									
EMPLOYMENT	77	81	81	81	60	60	60	80	80
OVERHEAD	34	39	41	43	21	21	23	29	29
LAMP & MEMBERSHIP DRIVE	83	56	56	56	6	6	6	6	6
OTHER	48	20	20	20	0	0	0	0	0
OTHER	90	88	70	65	41	41	41	17	17
TOTALS	975	1,084	1,053	1,017	552	577	604	632	666

APPENDIX D

CAIC FINANCIAL PROJECTIONS

CARDIFFIAN ASSOCIATION OF INTEREST AND COMMERCE
 * CAIC REVENUES & COSTS - SCENARIO # 2 *

(US dollars)

ELEMENTS:	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96
REVENUES:									
MEMBERSHIP DUES	270,500	279,019	323,600	339,780	356,769	374,607	393,338	413,008	433,355
BANK INTEREST	6	-	-	-	-	-	-	-	-
GRANTS:									
FED	468,642	494,665	517,000	430,000	-	-	-	-	-
OTHER	-	-	163,000	172,000	232,000	60,000	60,000	60,000	60,000
OTHER INCOME	21,295	86,077	109,000	130,000	130,000	130,000	130,000	130,000	130,000
TRAINING REVENUES	7,000	7,500	8,250	40,000	65,000	100,000	100,000	100,000	100,000
TOTALS	767,443	857,271	1,120,850	1,111,780	783,769	664,607	683,338	703,008	723,655
% increase in dues		3.0%	13.7%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
COSTS									
ADMINISTRATION									
EMPLOYMENT	175,435	247,789	260,676	260,000	200,000	210,000	220,500	231,525	243,001
OVERHEAD	180,985	167,405	174,265	175,000	150,000	157,500	165,375	173,644	182,026
CONTINGENCY	49,692	19,689	19,527	20,000	10,000	10,000	10,000	10,000	10,000
IDO									
EMPLOYMENT	58,538	86,071	90,780	92,000	62,000	65,100	68,355	71,773	75,061
OVERHEAD	26,177	23,262	26,229	26,000	26,000	27,300	28,665	30,093	31,003
OTHER	50,316	161,053	124,472	94,000	10,000	10,000	10,000	10,000	10,000
ERAC									
EMPLOYMENT	72,941	32,175	20,920	20,000	22,000	23,100	24,255	25,463	26,744
OVERHEAD	30,156	25,516	31,997	32,000	32,000	33,600	35,280	37,041	38,696
OTHER	60,502	11,964	28,695	20,000	15,000	15,750	16,538	17,361	18,233
OD									
EMPLOYMENT	70,792	55,808	26,102	30,000	34,000	35,700	37,485	39,351	41,127
OVERHEAD	37,805	29,197	31,681	32,000	32,000	33,600	35,280	37,041	38,396
OTHER	85,885	32,581	59,272	46,000	20,000	21,000	22,050	23,151	24,310
EXPORT DEV	-	-	226,000	256,000	172,000				
TOTALS	899,224	892,510	1,120,616	1,103,920	785,000	642,650	673,783	706,472	710,795
Over (Under)	(131,781)	(35,239)	234	7,860	(1,231)	21,957	9,555	(3,464)	(17,140)
REVENUE COST									

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LIST OF PERSONS INTERVIEWED

<u>COMPANY</u>	<u>PERSON</u>	<u>TITLE</u>
<u>Antigua/Barbuda:</u>		
National Development Foundation of Antigua & Barbuda	Leroy A. Adams	Small Business Counsellor
Sealy Mattress Co. (Antigua) Ltd.	Peter John Harker	Managing Director
Pigott's Woodworking	George Pigott	Managing Director
National Development Foundation of Antigua & Barbuda	Carle J. Walter	Executive Director
Sewn Products (Antigua) Ltd.	Janett Warner	Managing Director
Warner Interiors	Lois E. Warner	Interior Decorator
<u>Barbados:</u>		
W.I.D. Limited	Lynn Allison	Executive Director
Caribbean Association of Industry and Commerce	Pat Carmichael	Deputy Executive Director
Caribbean Association of Industry and Commerce	Jeannine Coma	Program Manager Training Department
Financial Service Associates Ltd.	Lorraine Edwards	Secretarial Services Coordinator
Caribbean Association of Industry and Commerce	Melvin R. Edwards	Regional Coordinator
National Development Foundation of Barbados	Granville Farley	Senior Project Officer

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<u>Company</u>	<u>Person</u>	<u>Title</u>
<u>Barbados (Continued):</u>		
Caribbean Association of Industry and Commerce	Cheryl Fitzpatrick	Accounts Officer
Caribbean Development Bank	Volville L. Forsythe	Project Officer Agriculture/ Industry
Caribbean Association of Industry and Commerce	Anne Gittens	Financial Controller
Hooper Garment Co. Ltd.	Sandra Hooper	President
Caribbean Association of Industry and Commerce	Mark Husbands	Assistant Project Officer
National Development Foundation of Barbados	Robert (Bobby) Morris	Executive Director
Caribbean Association of Industry and Commerce	Omar Rahaman	Project Officer (Technical Assistance & Training)
Caribbean Association of Industry and Commerce	P. A. Thompson	Executive Director
<u>Dominica:</u>		
National Development Foundation of Dominica Limited	Muhammad Abdullah	Senior Projects Officer
Marinor Enterprises Ltd.	Michael Astaphan	Managing Director
Dominica Association of Industry and Commerce	Ferdinand Azille	Former Exec. Secretary
Benjashoe Plastic Co. Ltd.	Ester Benjamin	Managing Director
Cello's Furniture	Fitzroy Celestine	Owner
Mussons Trading Ltd.	Augustus L. Emanuel	Managing Director

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<u>Company</u>	<u>Person</u>	<u>Title</u>
<u>Dominica (Continued):</u>		
Producer of Tomato Catsup (operates out of his home)	Emile George	Owner
National Development Foundation	Marie-Louise Grell	Administrative Officer
Candle Industries Co-op	Eulise Ismael	Assistant Manager
Dominica Hucksters Association	Cecil Joseph	Exec. Secretary
Dominica Association of Industry and Commerce	Edward Lambert	President
National Development Foundation of Dominica Limited	Milton F. Lawrence	Executive Director
Moreau's Garment Manufacturing Centre	Russell P. Moreau	Manager
Candle Industries Co-op	Judith Telemacque	President of Coop. and Store Keeper
Islander Leather Goods Manufacturers Cooperative Society Ltd.	Kelly Williams	General Manager
<u>Grenada:</u>		
The National Commercial Bank of Grenada Limited	Michael B. Archibald	General Manager
Jonas Browne & Hubbard (Grenada) Ltd.	Allan Bierzynski	Finance Director
National Development Foundation of Grenada Limited	Chasley Bishop	Executive Director
Rainbow Boutique	Sandra Greenaway	Manager
Simpson Theodore Ltd.	Simpson Theodore	President
Hi-Tech Printery	Darryl Brathwaite	Managing Director

<u>Company</u>	<u>Person</u>	<u>Title</u>
<u>Grenada (Continued):</u>		
L & M Investments Limited	Merle W. Byer	Managing Director
<u>Montserrat:</u>		
Allen's Woodworking Company Ltd.	William Allen	Managing Director
Montserrat Stationery Centre Ltd.	Kenneth A. Cassell	Managing Director
Montserrat Stationery Centre Ltd.	Rosalind L. Cassell	Executive Director
National Development Foundation	Roselyn Cassell	Executive Director
St. Patrick's Co-Op Credit Union Ltd.	Claudette Dublin	Credit Union Development Officer
Government of Montserrat Ministry of Agriculture, Trade, Lands & Housing	Karl A. R. Lewis	Food Technologist/ Produce Chemist
Shirley Osborne Ltd.	Shirley Osborne	President
National Development Foundation	Charles F. Roberts	Chairman
<u>St. Kitts/Nevis:</u>		
"Le Collage"	E. Patricia Archibald	Manager
Foundation for National Development (St. Kitts & Nevis Ltd.)	Raphael A. Archibald	Executive Director
Chamber of Industry and Commerce	Glenville Bart	Assistant to Executive Director
St. Kitts Breweries Ltd.	Calvin O. Cable	Head Brewer & Plant Manager
St. Kitts and Nevis Investment Promotion Agency	Dudley Chase	Technical Adviser

<u>Company</u>	<u>Person</u>	<u>Title</u>
<u>St. Kitts/Nevis (Continued):</u>		
St. Kitts-Nevis- Anguilla Trading and Development Co. Ltd.	Sandra Greenway	Manager
Fairview Limited	B L. (Betty) Lam	Director
Tropical Silk Screen Studios Ltd.	Peter I. H. Mallalieu	President
St. Kitts Chamber of Industry & Commerce	Rickie Skerritt	Exec. Director
<u>St. Lucia:</u>		
Bagshaws	Alice Bagshaw	Owner
Gold Electronics	Clive Beaubrun	General Manager
J.E. Bergasse and Co.	Hollis Bristol	Immediate Past President CAIC
National Research and Development Foundation	Patricia Charles Exec. Director	
St. Lucia Manufacturers Association	George Eugene	President
St. Lucia Manufacturers Association	Claudia Jean-Baptiste	Exe. Director
National Research & Development Foundation Counselling	George Jude	Credit and Manager
Caribic Designs Co.	Urmie Persaud	Part Owner
St. Lucia Chamber of Commerce, Industry and Agriculture	Inista St. Marthe	Exec. Secretary Secretary
Brydens and Partners	Brian Walcott	Member of SEAP Policy Committee

<u>Company</u>	<u>Person</u>	<u>Title</u>
<u>St. Vincent/Grenadines:</u>		
Davy Agro Industries Managing	G. Michael Davy	Director
The National Develop. Foundation of St. Vincent and the Grenadines	Garnet Deane	Exec. Director
The National Develop. Foundation of St. Vincent and the Grenadines	Sheila Douyon	President and Chairman of the Board
Gunn Communications Ltd.	Anthony Gunn	Managing Director
U.S. Peace Corps	Gordon McDonald	Peace Corps Volunteer, NDI Agent
Gunn Communications Ltd.	Victor A. Peters	Managing Operations
St. Vincent Chamber of Industry and Commerce	Hugh Phillips	Exec. Director
Caribbean Association of Industry and Commerce	Noel Veriner	Consultant
St. Vincent Chamber of Industry and Commerce	Hugh Phillips	Exec. Director Director
<u>Trinidad:</u>		
Trinidad and Tobago Chamber of Industry and Commerce	Carmena Baird	President and Managing Dir.
	Len Hackshaw	Past Board Member of CAIC
Trinidad and Tobago Manufacturers Assoc.	Clive Teelucksingh	General Manager
Trinidad and Tobago Chamber of Industry and Commerce	Audley L.T. Walker	President