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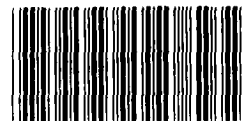
BY THE U.S. GENERAL ACCOUNTING OFFICE

Report To The Administrator Agency For International Development

AID Assistance To The Eastern Caribbean: Program Changes And Possible Consequences

Agency for International Development assistance provided to the small island nations of the Eastern Caribbean has increased from about \$13 million in 1981 to \$52 million in 1983. This increase, together with the initiation of bilateral projects directly with the governments and projects to assist the private sector, have placed additional burdens on the Agency staff.

GAO is making recommendations that will lessen the management burden, guide bilateral assistance activities, and help in deciding the appropriate directions for private sector strategy in the region.



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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

NATIONAL SECURITY AND
INTERNATIONAL AFFAIRS DIVISION

B-198960

The Honorable M. Peter McPherson
Administrator, Agency for International
Development

Dear Mr. McPherson:

This report discusses the status of the Agency for International Development's assistance program in the Eastern Caribbean, including recent program changes, potential management difficulties, and issues relating to the directions for private sector strategy in the region.

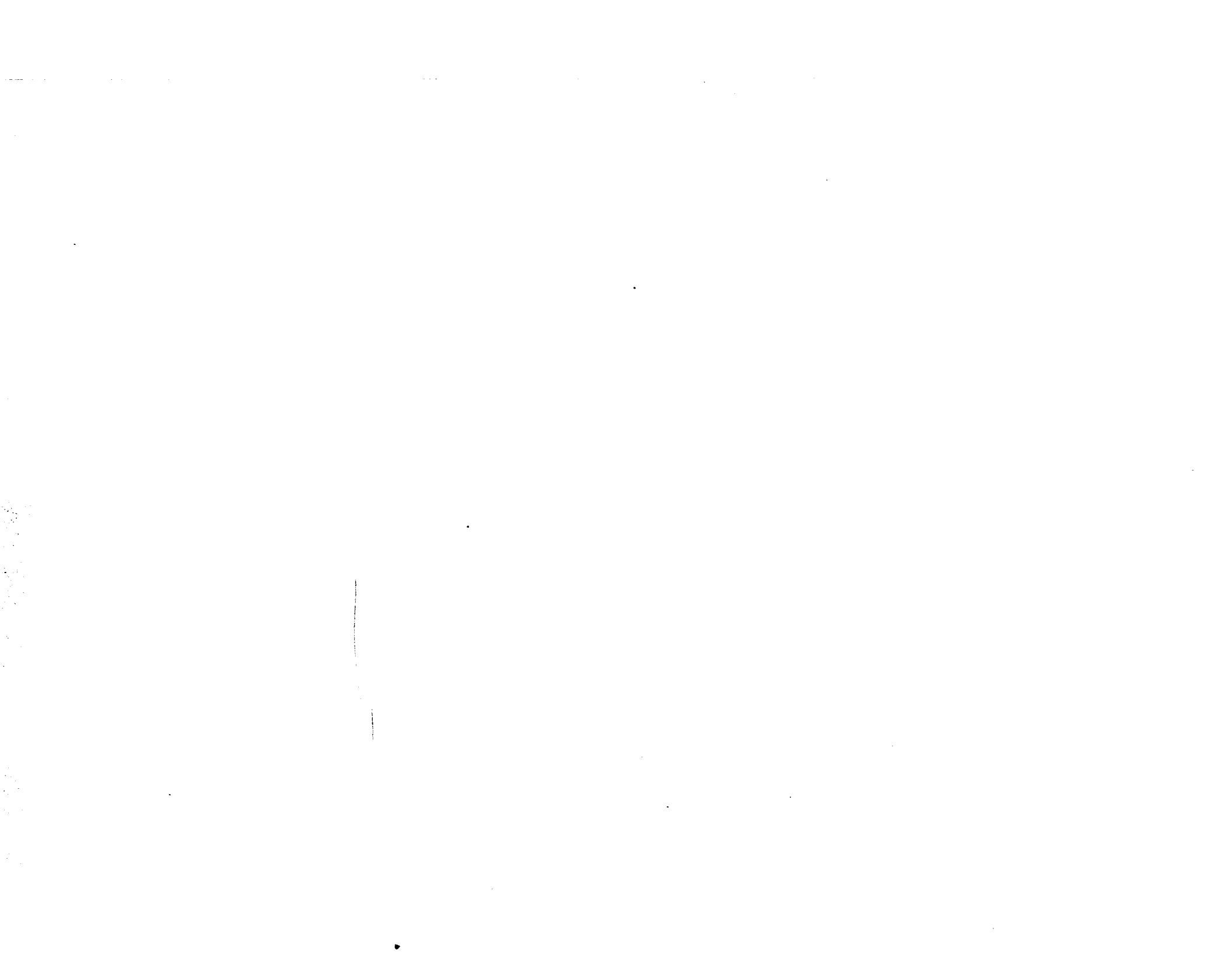
This report contains recommendations to you on pages 19, 25, and 32. As you know, 31 U.S.C. §720 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Director, Office of Management and Budget, and to appropriate congressional committees.

Sincerely yours,

A handwritten signature in cursive script that reads "Frank C. Conahan".

Frank C. Conahan
Director



D I G E S T

The island states of the Eastern Caribbean-- Barbados, Antigua/Barbuda, St. Kitts/Nevis, Montserrat, Dominica, St. Lucia, St. Vincent and Grenada--are small, with a population of about 800,000 and a land area less than the size of Rhode Island. Estimated U.S. economic assistance to this region has increased from about \$13 million in fiscal year 1981 to \$40 million in 1982, and \$52 million in fiscal year 1983. This report discusses the methods the Agency for International Development (AID) uses to administer the U.S. assistance program to the Eastern Caribbean.

AID FACES DIFFICULT MANAGEMENT TASK

While AID has greatly increased its assistance to the Eastern Caribbean, it has made strategy changes which will place additional burdens on its staff. These factors, together, present AID with a challenging management task. In the last several years, AID has decreased assistance channeled through the Caribbean Development Bank, initiated bilateral projects directly with the Eastern Caribbean governments, and implemented projects to assist the private sector. (See ch. 2.)

CHANNELING ASSISTANCE THROUGH
THE CARIBBEAN DEVELOPMENT BANK

The Caribbean Development Bank has been AID's primary means through which assistance is delivered to the Eastern Caribbean. Although generally satisfied with its performance, AID has decreased assistance channeled through the Bank in recent years. The primary reason for this decrease appears to be a conflict between U.S. policy which seeks to deny assistance to the Government of Grenada and the Bank's policy which prohibits excluding Grenada, a Bank member, as a potential assistance recipient based on political grounds. GAO believes that there are several ways to channel assistance through the Caribbean Development Bank without giving U.S. assistance directly to Grenada. One such way is to use the Caribbean Development Bank to administer trust funds for specific activities on a particular island. This

would permit AID to achieve its objectives of providing bilateral assistance without the need for additional staff. (See p. 18.)

In view of AID's limited resources, GAO recommends that AID explore with Caribbean Development Bank officials the potential use of trust funds to administer its bilateral projects. (See p. 19.)

INITIATION OF BILATERAL PROJECTS

Departing from the past practice of channeling assistance to the Eastern Caribbean through regional institutions, AID recently initiated projects to provide assistance directly to Eastern Caribbean governments. According to AID, bilateral projects can be tailored to meet each island's needs, and can achieve foreign policy objectives better than assistance channeled through intermediaries. At the same time, AID acknowledges that managing bilateral assistance projects will require more staff time and will increase management costs, such as for travel, so that AID staff and contractors can visit each island to identify development needs, design suitable projects, and monitor project implementation. The AID Administrator, to ensure proper management of its planned bilateral program, will have to allocate from Agency resources sufficient staff and travel funds, or make use of Caribbean Development Bank staff as suggested above. (See ch. 4.)

AID is required to formulate strategy documents which describe the development problems of the recipient country and how AID plans to overcome them. Because the mission only recently began to provide bilateral assistance, it has not developed the strategy documents for the individual islands. (See p. 22.)

GAO recommends that the Administrator, AID, ensure that strategy documents are developed to guide AID's assistance activities to each Eastern Caribbean island. (See pp. 24 and 25.)

EFFORTS TO PROMOTE PRIVATE SECTOR GROWTH

AID is aggressively promoting private business investment and expansion. It has financed construction of factory shells to attract

investors, sponsored activities to identify and develop investment projects, and hired resident consultants to promote foreign investment and indigenous private sector growth. In fiscal years 1982 to 1984, AID will obligate about \$58 million to promote private sector growth. Because much of its private sector program is in the early stage of implementation, there are few documented results. Nevertheless, AID is confident that its private sector program will soon begin to pay off in terms of investment, production, and employment. When its projects are implemented, AID should assess the impacts so that it and the Congress can decide the appropriate directions for private sector strategy in the region. (See ch. 5.)

Accordingly, GAO recommends that the Administrator of AID undertake a comprehensive evaluation of its private sector program in the Eastern Caribbean by the end of fiscal year 1984 to measure (1) types of business activity resulting from AID's projects, the impact on the local economy, and persons benefited including secondary beneficiaries; (2) if private investment caused jobs to be relocated from elsewhere; and (3) if results achieved justify the costs. (See pp. 31 to 32.)

Though agency comments were not requested, agency program officials have reviewed a draft of this report. Their views have been incorporated in the report.



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ABBREVIATIONS

AID	Agency for International Development
GAO	U.S. General Accounting Office
CDB	Caribbean Development Bank
GNP	Gross National Product



CHAPTER 1

INTRODUCTION

The Eastern Caribbean is an arc of islands forming the eastern border of the Caribbean Sea. These islands are predominantly English-speaking due to their colonial heritage, but several islands are departments or territories of France and the Netherlands. This report focuses on the eight English-speaking island nations which have received U.S. assistance--Barbados, Antigua/Barbuda, St. Kitts/Nevis, Montserrat, Dominica, St. Lucia, St. Vincent, and Grenada--and refers to them collectively as the Eastern Caribbean. Together these eight island nations have roughly the same area and population as the state of Rhode Island.

ECONOMIC CONDITIONS IN THE EASTERN CARIBBEAN

Small in size and population, the Eastern Caribbean islands are relatively well off economically in comparison to other developing countries in the area. (See page 3.) Per capita gross national product (GNP) averages about \$1,800 among a population of over 800,000. Excluding Barbados, the most prosperous island, the average per capita GNP is over \$900. The poorest islands, Grenada, St. Vincent, and Dominica, have per capita GNP of \$460, \$500, and \$600, respectively. The Eastern Caribbean governments have generally provided for the basic needs of their citizens. As a result, education and health conditions are good. For example, the literacy rate is about 90 percent, and infant mortality rates are about half of rates experienced in Latin American countries receiving U.S. assistance.

According to the Agency for International Development (AID), the Eastern Caribbean islands have historically depended on substantial assistance from the United Kingdom to cover a portion of their operating budgets and practically all capital outlays. However, British budgetary support has decreased dramatically as the islands attained independence. Although records were not available which would enable us to document British financial support in terms of dollar amounts, both AID and other donors to the Eastern Caribbean have long recognized that British assistance to these islands prior to their independence has been substantial. In transition from colonial rule to independence, the Eastern Caribbean islands are now having to rely more on their own resources to maintain their standards of living. Unfortunately, existing levels of economic output are generally insufficient to provide revenues to support expected social and economic services. In order to maintain their standards of living, the Eastern Caribbean islands will have to find a substitute source of external assistance to achieve economic growth.

<u>Country</u>	<u>Year of independence</u>	<u>Population</u>	<u>Per capita GNP (note a)</u>
Barbados	1966	252,000	\$3,800
Montserrat	(b)	12,000	1,700
Antigua/Barbuda	1981	77,000	1,040
St. Lucia	1979	122,000	1,700
St. Kitts/Nevis	1983 (Pre-dicted)	45,000	920
Dominica	1978	74,000	600
St. Vincent	1979	115,000	500
Grenada	1974	<u>107,000</u>	460
Total population		<u>804,000</u>	

a/ Existing economic data varies according to source. AID considers these figures to be the best available.

b/ Montserrat remains a British Crown Colony and is not expected to be independent in the near future.

Factors which impede economic growth include small market size, limited natural resource base, high transportation and communication costs associated with geographic dispersion, all of which restrict economic production. Consequently, limited productive activity and unemployment are serious problems. In addition, oil price increases in the 1970s, natural disasters, and effects of a worldwide recession have caused financial difficulties which have impeded development.

U.S. INTEREST IN THE EASTERN CARIBBEAN

Proximity of the region to vital shipping lanes, the Panama Canal, and the United States makes political and economic stability of the Eastern Caribbean important to U.S. interests. Their small size and vulnerability to changing economic conditions, however, make these islands susceptible to radical economic and political solutions. This becomes more likely if economic activity does not increase to provide employment and revenue for public sector services. With the exception of Grenada, the Eastern Caribbean nations are considered pro-United States and share a commitment to democratic institutions and individual freedoms--conditions which help further strengthen ties with the United States. It is also in the U.S. interest to foster and encourage their support, since each independent island is a full participant in the world community with membership in the Organization of American States, the United Nations, and other international forums.

Concerned over economic conditions in the Eastern Caribbean, the United States is providing substantial economic assistance. This assistance is administered by AID through its Caribbean Regional Development Office located in Barbados. In addition to the Eastern Caribbean, this office also has responsibility for administering projects through regional institutions which benefit non-Eastern Caribbean countries, including the Bahamas, Belize, the Dominican Republic, Guyana, and Jamaica.

Since fiscal year 1982, AID's regional program has focused on the Eastern Caribbean islands, which has since received an increased portion of total annual assistance levels as discussed in chapter 2. As a result, our analysis shows that these islands have become large per capita recipients of U.S. assistance in comparison to their Caribbean and Central American neighbors.

U.S. Assistance to the Eastern Caribbean and
Other Caribbean and Central American Countries

<u>Country</u>	<u>Population</u> (1982 or latest available)	<u>Per Capita</u> <u>GNP</u>	<u>Fiscal year 1982</u> <u>assistance (note a)</u> (in millions)	<u>Assistance</u> <u>per capita</u> (assistance divided by population)
Eastern Caribbean	804,000	\$1,800	\$40	\$50
Jamaica	2,295,000	1,180	87	38
El Salvador	4,617,000	640	114	25
Costa Rica	2,534,000	1,480	51	20
Honduras	4,103,000	590	43	10
Dominican Republic	6,013,000	1,340	39	6
Haiti	6,054,000	300	34	6

^{a/} Does not include fiscal year 1982 assistance provided in the Supplemental Appropriations Act.

As shown, fiscal year 1982 assistance going to the Eastern Caribbean is equivalent to about \$50 for each person living in the islands--more than eight times the per capita assistance provided to Haiti.

OBJECTIVES, SCOPE, AND METHODOLOGY

We reviewed AID's program to the Eastern Caribbean to provide objective information on the status of assistance efforts, assess AID strategy, and identify actions to improve program management and development impact. These objectives were chosen to address concerns of interested congressional committees.

We reviewed AID's program through fieldwork in Washington and at AID's mission in Barbados, the Caribbean Regional Development Office, which administers the U.S. assistance program for the Eastern Caribbean islands, during September-December 1982.

Our fieldwork included extensive discussions with AID and Embassy officials, host government officials, other donor agencies, representatives of private sector organizations, and Caribbean Development Bank (CDB) officials. In addition, we reviewed AID documents such as project and program plans, progress reports, evaluations, cables and financial documents. We also visited six of the eight Eastern Caribbean Islands to review results of selected assistance projects and to gain a better understanding of the islands' development needs. (We did not visit Grenada where AID's program is dormant or Montserrat where AID has financed few activities.) This report also draws on information obtained by our staff during a visit to Barbados in May 1981. Program officials reviewed a draft of this report and we have incorporated their views in the report. Consequently, we did not obtain official agency comments. Except for this, our review was made in accordance with generally accepted Government auditing standards.

CHAPTER 2

AID FACES DIFFICULT MANAGEMENT TASK

AID's Caribbean Regional program has undergone major changes in size and strategy which the AID mission, in undertaking them simultaneously, may have difficulty managing. In addition to relatively large assistance levels obligated in fiscal year 1982, the mission has made strategy changes which require more direct staff involvement to manage its program prudently. The mission director believed that his staff had capably managed the program in the past. But, in view of a planned fiscal year 1983 program of \$80 million, as compared to \$27 million in 1981 and \$50 million in 1982, the mission director was concerned that in the future program management might suffer. Accordingly, the AID mission proposed options in 1982 to ease their management burden: (1) increase staff size, (2) reduce program size, and (3) streamline delivery assistance mechanisms. Although AID has begun to take some actions on each of these options, including reduction of the 1983 program to \$55 million, we believe that these actions may not significantly reduce the mission's management burden.

MANAGING A LARGE AND COMPLEX PROGRAM

The Caribbean Regional Office manages a large and complex program. Funding levels increased dramatically in fiscal year 1982. More importantly, the mission's program includes new strategy components which place additional management burdens on mission staff.

Increased funding levels

With the exception of fiscal year 1981, assistance administered by AID's Caribbean Regional Office has increased every year since 1977. Assistance obligations almost doubled between fiscal years 1981 and 1982.

CARIBBEAN REGIONAL OFFICE
PROGRAM ASSISTANCE

(in millions of dollars by fiscal year)

	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	Proposed <u>1983</u>	Proposed <u>1984</u>
Development Assistance	7.2	23.6	26.8	36.5	27.0	30.0	26.0	30.0
Disaster Relief and Food Donations	-	-	3.0	4.6	-	-	-	-
Economic Support Funds	-	-	-	4.0	-	20.0	^{a/} 29.0	25.0
Total Funding	<u>7.2</u>	<u>23.6</u>	<u>29.8</u>	<u>45.1</u>	<u>27.0</u>	<u>50.0</u>	<u>55.0</u>	<u>55.0</u>

^{a/} Includes \$24 million appropriated in fiscal year 1982 Supplemental Legislation.

In conversations with AID mission staff at all levels, we were informed that the increased assistance level by itself had substantially increased the management duties assigned to mission staff. As of January 1983, the mission had responsibility for monitoring implementation of 42 projects whereas 3 years earlier they had to monitor implementation of only 27 projects.

Mission staff told us that the increased management duties associated with an expanded assistance program had been further magnified because the mission had increased the portion of its program targeted toward the Eastern Caribbean islands. Through 1981, we estimated that about half of AID's total funding directly assisted the Eastern Caribbean islands. In 1982, however, these islands were expected to receive about \$40 million, or 80 percent, of that year's assistance. Further, almost all of the 1983 and 1984 programs are targeted for activities in the Eastern Caribbean. Because these islands lack the management expertise to participate fully in meeting development project responsibilities, most project design and implementation tasks must be performed by mission staff. During our visits to the various islands, AID contractors stationed in government ministries told us that, based on their experience, the islands have few experienced public sector personnel. According to AID project officers, a single island may have only several trained economists, agronomists, or other specialists to participate in planning and implementing projects.

Adding to their responsibilities, mission staff provide support to about 30 projects involving \$8 million which are funded and administered by AID staff in Washington. Further, a large number of private and voluntary organizations operate in the Eastern Caribbean islands. While Caribbean Regional Office staff are not directly involved in management of these activities, they are called on for support and must assure that development activities are properly coordinated.

Recent strategy changes have increased management burden

Management responsibilities also had grown because AID strategy decisions were resulting in additional management burden. For example, we noted that:

- AID had decreased use of the Caribbean Development Bank to administer U.S. assistance, thereby, losing a development tool which had permitted efficient assistance delivery in the past. (See ch. 3.)
- AID had begun to provide assistance directly to Eastern Caribbean governments. This requires additional staff time and cost to deal with seven intended recipient countries, each with its own development needs and priorities, and institutional capacity to meet those needs. (See ch. 4.)
- AID had reemphasized support to the private sector. AID determined that to achieve private sector development it will need to fund new banking, trading, and educational institutions, and rely heavily on contractors and its own staff for project planning and implementation. (See ch. 5.)
- For sound development reasons, AID has sought to use Economic Support Funds for development projects requiring as much staff attention as other development assistance activities, rather than providing cash transfers which can be administered with fewer staff. (See ch. 5.)

ABILITY TO PROVIDE PRUDENT MANAGEMENT MAY BE SEVERELY TESTED

During a visit to the mission in May 1981, we were informed that program management responsibilities at that time were close to exceeding the mission's ability to carry them out. Since then, program management responsibilities have increased substantially because the program had grown in size and because of strategy changes described above. Given the size and complexity

of its program, we believe the mission may have difficulty in the future providing prudent management--designing thoroughly planned projects, avoiding project implementation delays, and monitoring use of funds to assure proper use.

Project officers told us that sufficient attention to project implementation will be particularly difficult when projects under design proceed into the implementation phase. At the end of 1982, the mission had obligated over \$61 million which had not been expended. Adding \$24 million of new obligations by March 1983, the mission will have a large amount of assistance to oversee. This could lead to management difficulties caused by growing project implementation responsibilities which are expected to increase in the summer of 1983. Mission officials expressed concern about staff ability to exercise prudent management in the future.

Our fieldwork indicates that there is a basis for this concern on the part of AID because problems had already started to occur in the design phase of several projects. For example, we noted that in the last 5 weeks of fiscal year 1982, the mission obligated \$24 million--half of the fiscal year's assistance level. Further, in the last 2 weeks of fiscal year 1982, the mission completed project design and signed agreements on six projects with obligations of \$14 million. We accompanied mission officials on a field trip to one island on September 30, 1982, the last day that fiscal year 1982 assistance could be obligated. During this trip, we observed that mission officials were making amendments to the project agreement just minutes before the signing ceremony.

Furthermore, management difficulties were complicated by the timing of supplemental appropriations. In December 1982, we noted that mission staff were designing projects quickly to obligate supplemental assistance appropriated in late fiscal year 1982. The appropriation act required that all funds allocated for the Eastern Caribbean be obligated by March 31, 1983. Design of one project for which the mission had earlier hoped to obligate \$10 million by March 1983 had already been delayed to at least May 1983. As a result, the mission had to obligate the \$24 million, some of which had been planned for this project, to other projects. In December 1982, while we were at the mission, AID staff were designing six additional projects, but did not know which projects would be sufficiently prepared in time to permit obligation of the supplemental funds.

The Foreign Assistance Act requires that projects be thoroughly planned with necessary engineering and feasibility studies completed prior to project implementation to avoid problems such as cost overruns and other implementation difficulties. Because the supplemental assistance had to be obligated by the end of March 1983 or returned to the Treasury, the mission said that they had accelerated the project design process in order to meet the deadline. Several mission staff expressed

concern to us that project design might suffer in the haste to complete project plans. In addition to the March obligation deadline for \$24 million of 1982 supplemental assistance funds, the mission will have to obligate fiscal year 1983 assistance before October 1, 1983. To do this, they will have to complete design of additional projects which, during our fieldwork, had not proceeded past the concept stage. The mission director acknowledged that his staff was faced with a challenging task. However, he believed that attention to project preparation had not yet suffered. Mission officials assured us that if projects are not fully prepared, they will not proceed to obligate funds solely to meet a deadline.

PROPOSED SOLUTIONS TO AVOID FUTURE MANAGEMENT DIFFICULTIES

Mission officials became concerned over the difficulties it might have in managing a larger, changed program and in 1982 prepared several options to ease its management burden. These plans were to (1) increase staff size, (2) reduce program size, and (3) streamline delivery assistance mechanisms.

Increase staff size

In 1981, the mission had 23 U.S. staff, including two training positions, to administer its program. In July 1982, the AID mission requested five additional U.S. positions, the minimum increase felt necessary. Without more staff, the AID mission director said they might have to curtail development of bilateral projects to permit adequate attention to implementation of ongoing projects. Mission officials pointed out that they had received only one additional staff in 1982 even though its program had almost doubled in size and become more complex. To further document its need for more staff, the mission performed a detailed analysis of staffing needs based on its past experiences with project design and implementation. According to this analysis, an additional 7-1/2 staff years were needed to assure prudent management of its planned program even with extensive use of contractors. Recognizing agency staffing constraints, the mission reiterated its request for five additional staff, slightly less than its own analysis indicated. We did not evaluate the mission's need for more staff.

Responding to the mission Director's request for additional staff, the Agency, as of December 1982, had authorized two additional positions, but had not assigned staff to fill the positions. The Ambassador told us that he would exert his influence on the Agency in hopes that they would provide the mission with staff resources commensurate with the increased program management responsibilities. But AID headquarters officials said that meeting staffing needs in all of its programs was difficult and that the Agency did not plan to authorize any more positions for the mission in fiscal year 1983.

Reduce program size

Another alternative suggested by the mission was to reduce assistance levels administered by the Caribbean Regional Office. The mission requested and planned to receive \$10 million of Economic Support Funds through supplemental appropriations in September 1982, but received \$24 million. The AID mission had also originally expected to obligate only \$20 million of fiscal year 1983 Economic Support Funds, but as of December 1982 had been instructed to obligate \$30 million, in addition to the \$24 million made available in the 1982 supplemental appropriation. During our fieldwork, mission officials in Barbados said that a total 1983 assistance level of \$91 million had earlier been proposed by AID, but that AID had since reduced its planned fiscal year 1983 program to \$80 million. Several officials told us they hoped that some of the \$80 million would be reallocated, thereby, lessening the mission's management burden. In March 1983, AID officials informed us that they had changed the 1983 assistance level to \$55 million. This is less than originally planned, but still more than administered by the mission in fiscal year 1982.

Streamline delivery assistance mechanisms

A third option the mission proposed was to streamline delivery of its assistance. Mission staff said this could be done by:

- providing cash transfers to Eastern Caribbean countries, thereby, lessening project management responsibilities, but encouraging the recipients to rely on such U.S. assistance;
- designing fewer but larger projects, thereby, lessening the management units requiring oversight; or
- channeling assistance through the CDB as done in the past.

In March 1983, mission officials said they had decided to provide balance-of-payments assistance through a cash transfer to Barbados, but not to other countries.

Our analysis leads us to believe that although the reduction of the 1983 assistance level, the cash transfer to Barbados, and the planned addition of two staff will somewhat reduce the management burden, additional actions may need to be taken if the mission is to carry out its functions in an efficient manner. The option of increasing mission staff levels has limitations because AID would have to reassign staff currently working on AID programs in other regions of the world. Further reduction in assistance for the Eastern Caribbean may also not be a desirable option. Our analysis of AID proposed funding

levels for the mission shows that the Eastern Caribbean will receive about \$25 million less than had been planned from fiscal year 1983 appropriations--roughly equivalent to the "supplemental" assistance provided in late fiscal year 1982. This in effect cancels out the infusion of additional assistance which was the purpose of the 1982 supplemental assistance appropriated by the Congress. AID officials said that the \$25 million of fiscal year 1983 assistance originally intended for the Eastern Caribbean had been reallocated to other programs.

We believe that finding ways to streamline assistance delivery offers the best potential for reducing the mission's management burden. Doing this by providing cash transfers may not, however, achieve desired development impact as explained in chapter 4. Further, we believe AID should not design fewer but larger projects solely to lessen the management burden, but should determine project size and allocate resources based on development need and desired impact. An alternative way to streamline assistance delivery is discussed in chapter 3.

CHAPTER 3

CHANNELING ASSISTANCE THROUGH THE CARIBBEAN DEVELOPMENT BANK CAN LESSEN AID'S MANAGEMENT BURDEN

During its 13-year history, the Caribbean Development Bank has evolved into the primary development institution in the Caribbean and the major assistance delivery mechanism benefiting the Eastern Caribbean islands. During this period AID has been closely associated with the CDB and has used the Bank to channel much of its economic assistance to the region. Although acknowledging its generally good performance, AID has decreased assistance channeled through the CDB in the last several years. There may be several reasons for this decrease, but the primary reason appears to be a conflict between U.S. policy which seeks to deny capital assistance to the Government of Grenada, and CDB policy which prohibits excluding Bank members as assistance recipients based on political grounds. Grenada is a Bank member and the management of the CDB believes that Grenada was excluded from a proposed U.S.-financed project on political grounds.

PAST AID STRATEGY CLOSELY LINKED TO THE CDB

Instrumental in its formation and growth, the United States has relied on the CDB to administer much of its assistance to the Eastern Caribbean. Our analysis showed that since the opening of the mission in 1976, nearly half of AID's Caribbean Regional Office assistance has been channeled through the CDB, thereby, relieving the mission of direct responsibility for project management. Mission officials and others claim the Bank has been successful in administering AID assistance.

U.S. instrumental in the formation and growth of the CDB

In the mid-1960s, the United States, the United Kingdom, and Canada commissioned a study to identify means of financing development projects in the Caribbean, with particular emphasis on the Eastern Caribbean islands needing assistance to enhance their economic viability. This study recommended formation of a regional development agency and in 1970, the Caribbean Development Bank was formed. The United States chose not to become a Bank member because Department of Treasury policy prohibits membership in sub-regional banks and the United States was already a member of the Inter-American Development Bank.

Even though not a Bank member, the United States has been the primary source of CDB resources. From 1971 through 1982 the United States, through AID, has provided the CDB with \$146 million--\$123 million in loans and \$23 million in grants. These contributions account for over one-fourth of CDB resources and nearly half of CDB resources used for low interest loans with

multi-year repayment terms. Other donors to the CDB include Canada and the United Kingdom which together have provided about 20 percent of the Bank's resources, and multilateral institutions which have contributed about 19 percent. Bank membership includes 17 Caribbean island countries, Venezuela, Colombia, the United Kingdom, Canada, and Mexico.

The CDB was the cornerstone
of AID's regional strategy

Because the Eastern Caribbean islands are small, regional cooperation has long been recognized by AID and other development institutions as crucial to developing economies of scale which could lead to economic growth. For example, each island alone cannot afford to fund a university or agriculture research service. But such services could be provided by a regional institution, with the costs and benefits shared among all the islands. In addition, AID believed that closer cooperation could lead to economic integration whereby each island could market their production regionwide rather than within the extremely limited market existing on any single island.

Recognizing the importance of regional cooperation, AID strategy has been to promote establishment and growth of regional institutions to serve the needs of the small islands. This strategy gave priority to strengthening the role of the CDB as the principal regional institution, and the channel through which most of AID's assistance would be provided. The Bank in turn provides financing for specific development projects to member governments and their agencies. Consistent with this strategy, AID provided assistance to improve CDB technical expertise so it could effectively manage increased assistance, and as late as early 1981, AID strategy remained closely tied to the Bank.

AID pointed out that channeling assistance through the CDB was efficient because it enabled AID to provide substantial development assistance without stationing large numbers of personnel in the Eastern Caribbean to implement its projects. Because of the large staff capability--the Bank has approximately 180 staff, half of whom are professionals drawn from 19 countries--AID has been able to make extensive use of the CDB in carrying out its regional assistance program.

AID has used the Bank to carry out many development activities. Our analysis shows that of the \$230 million in AID assistance obligations from 1976 to 1982, \$114 million has been channeled through the CDB. One of the AID projects administered by the CDB was a \$10 million Basic Human Needs/Employment project to provide short-term employment and rehabilitate deteriorated public infrastructure. Through the project AID financed construction or repair of primary schools, water supply systems, rural clinics, community centers, and roads. Soil conservation

and forestry measures were also implemented as part of this project. The CDB was responsible for providing project management staff to assist in the design, implementation, and monitoring of over 90 activities financed by this project in eight Eastern Caribbean islands and Belize.

Other AID assistance channeled to the Eastern Caribbean through the Bank included:

- a \$11.5 million project to finance construction of covered factory space for industrial expansion and related activities;
- a \$10 million project to finance marketing services, feeder road construction, agricultural credit, and seed and fertilizer distribution for small farmers; and
- a \$7.6 million project, most of which was channeled through the Bank to test, adapt, and disseminate alternative energy technologies.

In addition, AID channeled \$65.5 million through the CDB to finance local costs of donor projects to increase infrastructure, agricultural services, education facilities, and employment in Barbados and two non-Eastern Caribbean countries--Jamaica and Guyana.

Despite weaknesses, CDB performance has been considered good

Until recently AID proposed an expanded role for the CDB, primarily as a result of the Bank's effective administration of AID's program. AID credits the CDB with an overall sound record in implementing and monitoring AID projects which otherwise could not have been absorbed by the small islands. According to mission officials, CDB staff have been particularly successful in supplementing and guiding host country personnel to design and implement AID-financed infrastructure projects. In addition, CDB management of the Basic Human Needs Employment project contributed to considerable visibility and favorable publicity for the United States. Upon visiting project sites on six islands, we found that nearly all displayed recognizable signs stating that they were part of an AID-CDB funded development project. Another project which, according to the AID mission project officer, was well-managed and favorably received was the Employment/Investment Promotion project which financed factory shell construction to encourage investments which provide employment.

Although its overall performance is considered good, the CDB has been criticized for having burdensome paperwork requirements and lengthy internal project approval processes. A mission official told us that Bank procedures are generally no more

time-consuming, formal, and rigid than its own. CDB officials explained that they are accountable to member governments and donors such as AID and need strict procedures to avoid waste. They further explained that their policies and procedures for financing projects are patterned after the World Bank. In an effort to streamline its procedures, however, the CDB had commissioned a consulting firm to assess Bank practices and identify necessary corrective measures. This assessment, ongoing at the time of our fieldwork, had identified middle management decisionmaking responsibility, project supervision, and project preparation procedures as areas needing improvement.

According to the mission, CDB performance is weak in non-traditional development areas such as private sector assistance. The CDB asserts that financing is available for sound projects, having provided over 20 percent of its funds for private sector development. But it admits that its approval process is slow, attributing this to the fact that would-be borrowers often do not present project details needed for loan approval. Prospective private borrowers and the AID mission claim the CDB requires too much project preparation and feasibility data. Because of concerns over the CDB's capacity to administer private sector projects, AID believes that future efforts in this sector should not be channeled through the CDB.

POLITICAL CHANGE IN GRENADA CAUSES AID TO ALTER RELATIONSHIP WITH THE CDB

In 1979, a revolution in Grenada brought to power a government which has become increasingly critical of U.S. policies in the Caribbean and has aligned itself with Cuba. Due to this political change, AID, in conjunction with the Department of State, adopted a policy to deny capital assistance to the Government of Grenada. Because Grenada is a Bank member, this policy conflicts with CDB policy which prohibits excluding Bank members as potential assistance recipients on political grounds. As a result, an AID project planned in 1981 was cancelled and subsequent collaboration on development efforts has decreased.

In March 1981, the mission completed initial design of a \$4 million project to provide employment and construct and repair roads, water supplies, health clinics, and drainage systems. This project was a follow-on to the successful Basic Human Needs/Employment project. At that time, the follow-on project included Grenada as a recipient of \$444,000 for selected public infrastructure activities. However, when the project was formally presented to the CDB in June 1981, Grenada had been removed from the list of intended recipients. As its basis for not including Grenada as a recipient, AID claimed that due to limited funding, resources needed to be targeted to nations urgently needing assistance and pursuing sound development policies. Grenada, while a recipient under the first Basic Human Needs project, was not included in the follow-on project as a

recipient because AID claimed it did not meet the need and development approach criteria.

The CDB did not accept these reasons for not including Grenada, a Bank member, as a recipient. Citing their charter which prohibits interference in political affairs of Bank members, the CDB members refused to accept the AID assistance because to do so "would result in the Bank appearing to be operating as an instrument of United States foreign policy."

We were informed that subsequent project cancellation was a disappointment to the region. Both the CDB and AID mission believe that had there been no policy conflict, the \$4 million project could have been implemented smoothly, providing highly visible development impact. Host country officials from several islands reiterated this belief to us during our field visits.

Since 1981, AID has decreased assistance channeled through the CDB. New assistance channeled through the CDB in fiscal years 1981 and 1982 was limited to contributions to the Caribbean Development Facility which had not historically been used to assist Grenada. While AID continued to honor past project commitments, the AID mission expects that most funds obligated to the CDB will be expended by March 1983. Our review of planned projects shows that AID does not plan to channel any new assistance through the CDB in fiscal year 1983.

OPPORTUNITIES FOR FUTURE AID/CDB COLLABORATION

Because channeling assistance through the CDB would promote regional cooperation crucial to long-term economic growth and enable AID to provide assistance efficiently, we identified available options, whereby, AID and the CDB could collaborate on development activities in the future. We discussed the following options with AID and CDB officials:

- redesigning planned projects and channeling them through the CDB;
- contributing money to the CDB's unified Special Development Fund;
- becoming a member of the CDB; and
- establishing trust funds to be administered by the CDB for particular islands.

Redesigning planned projects

AID mission officials told us that there are several infrastructure projects which could be administered by the CDB without extensive project redesign. For example, AID's Basic Human Needs project, shelved in 1981 because of CDB insistence that

Grenada be included as a beneficiary, could be implemented by the CDB as originally planned. Mission officials said that it would take about 3 months to alter the design to make this project ready for implementation. Implementing this project, however, would require: (1) AID willingness to include Grenada as an assistance recipient; or (2) CDB willingness to accept the project it rejected 2 years ago.

A possible compromise which CDB officials proposed to us would be for AID's projects to include all the Eastern Caribbean, including Grenada, with the understanding that the CDB would acquire funds from other sources to cover the costs of activities financed in Grenada. CDB officials told us that although such a compromise could be worked out, no official discussions of this sort had taken place.

Mission staff told us that other regional projects which could be channeled through the CDB include a \$10 million industrial development project scheduled to begin late in fiscal year 1983, and a \$15 million private sector infrastructure project scheduled for 1984.

Contributing to the CDB's Special Development Fund

Increasingly concerned over the management burden of administering different donors' assistance funds according to different rules, the CDB is working to create a unified Special Development Fund. This fund, which all donors could contribute to, would be administered according to only one set of rules, and would consolidate the existing special development fund and other funds. CDB officials told us that they would welcome U.S. contributions to the unified fund as an indication of U.S. support for the CDB and the region. Rules for the administration of the fund are currently being negotiated. However, even though AID has considered contributing to the fund, they have not played a major role in negotiating how the fund would be administered.

In 1980 the AID mission suggested contributing to the CDB's existing special development fund as a means of providing support to the region without substantial management burden for the AID mission. Repeating its suggestion in 1981, the mission proposed contributions to the special development fund in order to relieve the CDB of having to deal with multiple donor administration requirements and to reduce the management burden for AID. Despite these suggestions, AID did not contribute to the fund and does not plan contributions in the immediate future. AID mission officials explained that a contribution to the new unified Special Development Fund would be similar to contributions made to the World Bank and the Inter-American Development Bank, in that AID could not select the specific purpose for which the assistance could be used or which country or countries would benefit.

Becoming a member of the CDB

Although Department of Treasury policy prohibits membership in sub-regional banks like the CDB, the AID Mission has in prior years proposed that an exception be made to permit membership. They argued that AID was heavily invested in the CDB yet had no representation. We believe that some of AID's complaints regarding CDB performance may stem from the limited influence the United States has over CDB management decisions such as hiring of personnel and approval of loans. Membership in the Bank would not necessarily solve such problems but would at least increase U.S. influence. CDB officials told us they would welcome United States membership in the Bank.

Trust funds can be used to administer AID's projects

To help carry out its program, we believe AID could consider establishing trust funds to be administered through the CDB. Development trust funds have been used widely by the Scandinavian countries to provide funds to intermediaries, such as United Nations agencies, for specific development purposes, thereby, drawing on the development expertise of resident personnel and minimizing the management burden on the donor. Through a similar approach, AID could provide assistance by funding a specific activity on a particular island, but letting the CDB design, implement, and manage it. This approach would permit AID to deliver bilateral assistance while at the same time lessening some of the potential drawbacks of planning and implementing bilateral projects--undue reliance on private contractors, and increased costs for frequent AID staff visits to each island receiving bilateral assistance. (These drawbacks are discussed further in chapter 4.)

In our opinion, use of the CDB through a trust funds mechanism to implement AID's projects has several advantages. As the major development institution in the region, the CDB has long had an extensive role in the design, implementation and management of numerous development activities in each of the islands, in each of their major economic sectors. Because of the CDB's knowledge and experience in working with each island government, the Bank has the capability to negotiate with individual island governments on priority development activities and the technical expertise to design, implement, and manage projects. In addition, it has frequently stationed its own staff on individual islands to monitor these activities. We believe that use of the CDB to negotiate development activities with each of the islands would be preferable to having AID contractors do this because of the Bank's longstanding reputation in the region and experience in dealing with island governments. Further, use of CDB staff on each of the islands would preclude AID from spending increased time and money as a result of anticipated

frequent staff visits to the individual islands, and would provide resident project management, which AID acknowledges, would assist project design and implementation.

AID's future relationship with the CDB

Based on the CDB's accomplishments in administering AID assistance, we believe that long-range development of the region can best be achieved by continued cooperation between AID and the Bank. If the United States decided to renew its collaborative development efforts, AID believes that up to \$15 million annually could be effectively channeled through the CDB to assist Eastern Caribbean nations. AID mission officials told us they hope to work with the CDB in the future on joint development efforts. However, during our visit, dialogue between AID and the CDB was minimal. Mission officials explained that they had not explored any of the above options pending the completion of high level inter-agency policy discussions. These discussions, which were still in process in March 1983, will guide AID's future relationship with the CDB.

CONCLUSIONS

The United States has supported the Bank for a decade, investing large amounts of money to form an institution capable of addressing the development needs of the region. The Bank provides a channel for AID to assist the Eastern Caribbean efficiently and effectively. Support to the CDB also encourages regional cooperation needed for the region to prosper. These factors, together with AID's potential difficulties in managing its assistance program, provide strong arguments for AID to make use of this development organization. We recognize that policy differences between the CDB and the U.S. Government regarding assistance to Grenada may be hard to resolve. But in our opinion, there would be advantages if this could be accomplished.

Using the CDB to administer AID trust funds for specific activities on a particular island would be one way to accomplish this goal. Through a trust fund mechanism we believe AID could achieve its objectives of providing bilateral assistance without the need for additional staff and travel funds.

RECOMMENDATION

We recommend that the Administrator, Agency for International Development, explore with CDB officials the potential use of trust funds through which CDB staff would design and implement AID's bilateral projects on a particular island.

CHAPTER 4

DESIGN AND IMPLEMENTATION DIFFICULTIES OF BILATERAL PROJECTS

AID has debated providing assistance directly to Eastern Caribbean governments for several years. This debate only recently culminated in a decision to initiate several bilateral projects in late fiscal year 1982. These projects are a major departure from past strategy of channeling assistance through regional institutions, such as the CDB. At the time of our review, AID's bilateral projects were in the design or early implementation stage--too early to predict how well they would contribute to developing the Eastern Caribbean islands. Nevertheless, we recognize there are difficulties which AID must overcome to assure that the projects are designed and implemented properly. We believe overcoming these difficulties will not be easy and will place additional burdens on AID mission staff. Even with maximum use of contract personnel, mission officials told us they will still need additional staff to plan and implement bilateral projects.

REASONS FOR PROVIDING BILATERAL ASSISTANCE

In March 1982, AID decided to begin direct bilateral assistance relationships with the individual islands in the Eastern Caribbean. Because these islands faced immediate difficulties such as high unemployment and deteriorating balance-of-payments, AID determined that supplementing its regional program with bilateral projects would enable it to better meet short-term needs of the individual countries. AID and State officials claim that bilateral assistance projects can be implemented more quickly than assistance provided through regional institutions and generally result in higher visibility for AID's program. In addition, AID views this more direct form of assistance as a means to increase influence among Eastern Caribbean governments and provide incentives to adopt policies conducive to economic growth. AID's decreased use of the CDB, discussed in chapter 3, was also a factor leading to the initiation of bilateral assistance projects.

AID officials told us they had been reluctant to implement bilateral projects, fearing that this strategy could encourage Eastern Caribbean countries to rely on U.S. assistance, rather than on regional institutions which AID supports. To minimize undue reliance on U.S. assistance, the AID Administrator cautioned that AID's move toward bilateral assistance should be carefully phased.

In addition, our analysis showed that AID has generally used Economic Support Funds for development projects, rather than providing cash transfers directly to the Eastern Caribbean governments. According to the AID mission director, direct cash transfers would discourage the islands from seeking workable

solutions to their economic problems. While cash transfers would relieve AID of extensive project management responsibilities, they could have negative development consequences. Therefore, the AID mission told us that cash transfers should be avoided. In an exception to this practice, AID provided a cash transfer to Barbados in March 1983 for immediate balance-of-payments relief but the AID mission told us that cash transfers will not be a recurring practice.

BILATERAL PROJECTS ARE JUST GETTING STARTED

In late fiscal year 1982 AID signed bilateral project agreements with three Eastern Caribbean countries, accounting for 39 percent of that year's assistance obligations. These projects were to provide \$1.75 million to assist the banana industry in Dominica, and \$17.25 million to rehabilitate roads in Dominica, St. Lucia, and St. Vincent. At the time of our visit, these projects were still in the early implementation phase. However, we found that the banana industry project was already facing implementation difficulties. Prior to disbursement of funds, Dominica must make major organizational changes to its banana industry. As of December 1982, we were told that there had been little progress toward reorganization, and the project was at a standstill. The road project had progressed to the point where AID had initiated engineering design work and was soliciting bids from potential contractors.

Additional bilateral projects for fiscal year 1983 were in the design stage. AID plans to provide about \$8 million to St. Lucia for agricultural development. Through this assistance, AID will attempt to effect policy reforms needed to stimulate growth and development of commercial agriculture and provide assistance for priority agriculture needs. Other planned bilateral assistance for fiscal year 1983 included \$9.7 million for water projects in Antigua.

PROJECT MANAGEMENT WILL BE DIFFICULT AND COSTLY

According to AID, the Eastern Caribbean countries have limited capacity to formulate development plans, and prepare and implement projects. As a result, success of bilateral assistance will depend largely on AID staff ability to identify development needs, design appropriate projects, and actively monitor the project implementation process. While this is also true in other countries where AID has programs, the difficulty of the task in the Eastern Caribbean is compounded, in our opinion, because AID plans projects in seven different countries, each with its own development needs and priorities and institutional capacity to meet those needs. AID officials told us that design and implementation of the bilateral projects will require additional staff time and cost. AID currently plans extensive use of contractors to supplement mission staff.

Identifying needs and designing projects

Bilateral assistance projects require AID to become more closely involved in identifying the development needs of each specific island, and in designing projects to meet the needs which can be realistically implemented. Because AID has just begun to provide bilateral assistance, AID has only limited experience working directly with each island, and has not developed long-term strategies which identify each country's needs, the resources AID requires to assist in meeting these needs, and how AID's bilateral projects and assistance provided through regional institutions will help to overcome existing constraints to development. During our fieldwork, the mission had only limited data on other donor activities on each island and could not provide accurate data on how much assistance each donor is providing. A mission official told us that AID should have better information on donor activities but had not yet obtained it. AID mission officials also said that the amount of assistance to be provided to each island was uncertain and thus program planning was difficult.

AID guidance requires that Country Development Strategy Statements be prepared for countries receiving substantial AID assistance. These documents "*** express the mission's understanding of the overall development problems and issues, propose what objectives, policies, and programs AID should pursue, and explain the reasoning behind the choice." In short, these documents describe "*** what AID expects to achieve in a country and how AID intends to do it."

In countries where AID has few activities and does not expect to achieve significant impact, abbreviated strategy documents called "Small Program Documents" are required to be prepared. The AID mission has prepared a strategy statement for its overall program. However, even though it has initiated bilateral relationships with five different countries, it has not developed individual strategy statements nor small program documents.

Mission staff told us they rely largely on World Bank economic reports to identify priority development needs and design suitable projects. These reports, prepared periodically, include information on the islands' development problems and prospects for economic growth. The reports also list projects identified by the respective governments which they believe would improve economic conditions if implemented.

Although the World Bank reports are useful, mission staff told us that these reports are not a substitute for detailed development plans for each island. Such plans should identify the policy and project activities necessary to meet specific development goals and objectives including analysis of population trends, human resource requirements, social needs,

gross national product estimates, resource utilization, infrastructure needs and expenditures, and specific private sector projects required to develop the local economies. We found that with the exception of Barbados, none of the islands have detailed plans which would form the basis for AID strategy statements. To strengthen the islands' development planning process, AID provided \$1 million to the World Bank which recently established a resident office in the Eastern Caribbean.

Until the development planning process improves, mission officials acknowledge that selection of priority development needs and project design will require extensive study, site visits and negotiations with each island's government. To assist its staff, AID is currently making extensive use of contractors to identify needs and design projects. For example, AID contractors have studied the agricultural sectors in St. Vincent and St. Lucia to identify necessary policy reforms and potential assistance activities for AID projects to be obligated in fiscal year 1983. We believe bilateral project design will also be difficult because the island governments often lack the ability to fulfill project preparation responsibilities without outside assistance. For example, we were told that the Government of Dominica was able to prepare documentation needed for AID's project to rehabilitate the banana industry only because an AID contractor stationed on the island under a different project spent about 3 months of his time assisting Dominica's Prime Minister to meet AID requirements.

Monitoring project implementation

AID officials expressed concern over their ability to adequately monitor bilateral projects. In addition, they acknowledged that monitoring costs in terms of staff and travel time will be considerably more for bilateral projects than for projects channeled through regional institutions. Because most of AID's bilateral projects are still in the design stage, the mission had not yet experienced serious project monitoring difficulties. However, AID project officers expect future difficulties finding sufficient time to make periodic project inspections. For example, one project officer told us he needs to spend 2 days per month in Dominica to monitor one project, and may have to neglect other important responsibilities. Other AID mission officials said that although monitoring bilateral projects is not a problem now, it may become so during project implementation beginning before the end of fiscal year 1983.

We believe project monitoring could prove particularly difficult because, as we pointed out previously, most island governments lack the expertise to implement projects without extensive external assistance. Since AID has no representatives stationed on islands other than Barbados, each monitoring or "trouble shooting" visit requires AID staff to fly from Barbados to the particular project, solve the problem, and fly back to

Barbados. AID plans to hire consultants as needed to supplement mission staff monitoring efforts and charter an aircraft to facilitate the extensive inter-island travel required by new bilateral projects. AID estimates that the charter will cost about \$250,000 per year.

Staffing and travel implications

AID has recognized that stationing its staff on islands which receive bilateral assistance would help AID to identify development needs most suited for bilateral assistance, design projects, and monitor project implementation. Further, resident staff could facilitate policy dialogue with the Eastern Caribbean governments. AID mission officials also point out that a resident representative could better coordinate its bilateral projects with assistance provided to the islands through regional institutions and other donors. Accordingly, AID has considered stationing staff on the islands, but has chosen not to because of cost considerations and because the resident status of AID staff might encourage the island governments to seek additional U.S. assistance.

Without staff on each island to design and implement its bilateral projects, staff stationed in Barbados will have to make frequent visits to the islands to identify development needs, negotiate with host country governments, design projects, and monitor project implementation. According to the mission, this extensive travel will significantly increase AID's management costs. At the time of our fieldwork, the mission had not received the travel funds required and expressed concern over the future availability of necessary travel funds.

In addition, mission officials told us they will need more staff to administer bilateral projects than other projects administered through regional institutions. To minimize the increased staff requirements, AID plans extensive use of contractors. Mission officials pointed out, however, that contractor activities must be properly planned and monitored. Further, we believe there are some activities, such as negotiations with host country governments which AID should not delegate to contractors.

CONCLUSIONS

Providing assistance directly to Eastern Caribbean governments can have a significant impact on the local economies if AID can accurately identify the recipient countries' needs, design projects which will meet these needs, and allocate additional staff time to prudently manage projects throughout the implementation process. Because AID does not have its staff stationed on each Eastern Caribbean island, design and management of bilateral projects will require frequent staff travel to the islands and extensive use of private contractors. If the planned bilateral program is to be properly managed, the AID

Administrator will have to allocate from resources already available a sufficient part--including staff and travel funds--or make use of CDB staff as suggested in Chapter 3.

In addition, AID needs to begin formulating strategy documents to guide their programs for each island. Once prepared, these strategy documents can be revised as AID becomes more closely involved with the development needs of the individual islands, and gains experience working with each island's government, and as the islands' own development planning process improves.

RECOMMENDATION

We recommend that the Administrator, Agency for International Development, ensure that strategy documents are developed for each Eastern Caribbean island which describe: AID's present and future bilateral projects on each island; their relationship to AID assistance provided to the islands through regional institutions and other donor's activities; and how these activities respond to each island's development needs, priorities, and objectives.

CHAPTER 5

PROMOTING PRIVATE SECTOR GROWTH

Our analysis showed that AID is aggressively promoting private business investment and expansion in the Eastern Caribbean. AID has designed projects to strengthen private sector organizations, attract foreign investment, identify and finance investment projects, construct infrastructure, and provide training. Together these projects represent an ambitious effort to overcome existing constraints to private sector development in the region. In fiscal years 1982 to 1984, AID will obligate about \$58 million to promote private sector growth.

PRIVATE SECTOR GROWTH IS NEEDED

The Eastern Caribbean nations devote a large portion of their resources to providing social services to their people. Public sector programs in education, health, and housing are extensive. Maintaining these services, however, is expensive. Mission officials told us that Eastern Caribbean governments are also committed to providing and maintaining physical infrastructure such as roads, power, and water. Meeting this commitment is especially difficult because the small size of the islands makes infrastructure costs on a per capita basis extremely high. For example, St. Lucia's road network requires substantial rehabilitation estimated to cost about \$28 million. With a population of 122,000, this cost is equivalent to \$230 for each person living on the island.

Recognizing the high costs of providing social services and meeting infrastructure requirements, both AID and Eastern Caribbean governments believe that private sector growth is necessary to increase the tax base from which public sector programs can be financed. In addition, private sector growth is desirable because it provides employment opportunities, thereby, lessening social instability caused by unemployment. For these reasons, AID has selected private sector growth as its highest development priority for the Eastern Caribbean.

Even with tax holidays, preferential access to European markets, due in part to their past colonial status, and various other investment incentives, the islands have found it difficult to attract private investment needed to stimulate economic growth. In an attempt to determine why, the Caribbean Group for Cooperation in Economic Development formed a task force to study constraints to private sector growth. Results of this 1980 study showed that insufficient financing facilities, shortages of managerial and skilled labor, an uncertain investment climate, unfavorable public sector policies, deficiencies in physical infrastructure, and marketing limitations were serious constraints. Our discussions with AID and local private sector representatives reinforced the findings of the task force study.

AID'S PROGRAM IS AMBITIOUS

To overcome these constraints to private sector growth, AID has designed an ambitious program which it hopes will begin to show results in the near future. AID recognizes that implementing this program will require substantial financial resources and management attention.

Program represents a substantial financial commitment

AID funding to assist private sector development is substantial. For example, of AID's fiscal year 1981 obligations of \$27 million, \$20 million was used for private sector development projects. In fiscal year 1982, \$10 million of the \$50 million total was obligated for private sector projects, and planned fiscal year 1983 private sector activities will account for approximately \$25 million of AID's anticipated \$55 million program. Even if AID projects are successful in stimulating business activity and creating jobs, the cost per job created could be substantial.

Estimated AID funding for private sector projects

<u>Fiscal year</u>	<u>U.S. dollar obligations (millions)</u>
1981	20
1982	10
1983	25 (projected)
1984	23 (projected)

AID has been assisting private sector development for several years. In addition, some of AID's projects predate the recent private sector emphasis. For example, a project to construct factory shells for industrial expansion in most of the islands began in 1978. AID mission officials stress that recent financial commitments to private sector projects do not represent a strategy change but reflect a reemphasis on promoting economic development through private sector growth.

AID's project portfolio is extensive

Based on our analysis, AID's private sector projects seek to: (1) identify investment opportunities and package them for financing; (2) provide financing; and (3) support private sector organizations, create infrastructure, identify markets, and provide training. Recent AID projects to identify investment opportunities include:

- a \$4.9 million contract to station advisors on six of the islands to work with the private and

public sectors to identify and develop potential investment;

--a \$1 million grant to the International Finance Corporation to identify and develop investment projects in the Caribbean, prepare financial plans, and identify possible sources of financing; and

--a \$6 million loan to the Latin American Agribusiness Development Corporation, \$4 million of which is to identify and develop agribusiness opportunities in the Eastern Caribbean.

To finance investment opportunities, AID plans to create a banking facility to channel medium and long-term risk capital to private businesses. AID plans to be the principal financier of this bank, with a \$9 million loan and \$3.3 million grant scheduled in fiscal year 1983. AID has also provided \$2.9 million to finance private sector proposals through a project administered through the CDB.

AID has also assisted private sector development in other ways. For example, AID has provided:

--\$1.1 million to revitalize the Caribbean Association of Industry and Commerce and support its research, training and technical assistance program activities.

--\$5.5 million to finance construction of factory shells to attract investors;

--\$4 million to establish a regional trading company to identify markets for regionally produced agricultural commodities; and

--\$4 million to be upgrade technical and managerial skills, in both the public and private sectors.

Our review of planned projects shows that AID also has a number of activities scheduled to begin later this year and in fiscal year 1984 to further promote private sector development. AID plans to expand agribusiness development activities; finance construction of additional factory shells, and marketing and transportation infrastructure; and develop a Graduate School of Business and Management in the region.

Potential project management difficulties

Although AID's initial private sector projects were channeled through the CDB and other regional institutions, AID has

determined that to achieve private sector development AID will have to create additional institutions and rely heavily on private contractors. In a recent review of AID's private sector program in Egypt¹ we found that it is time consuming and difficult to create new institutions. We believe that in order to overcome the difficulties, mission staff will have to spend more time during project implementation compared to projects administered through existing institutions. Because many of AID's projects are in the design or early implementation phase, we cannot predict what project management difficulties may be experienced. Nevertheless, we share concerns voiced by AID project officers as to how closely they will be able to monitor activities of the private sector organizations and AID contractors who will implement project activities throughout the Eastern Caribbean islands.

FEW RESULTS TO DATE, BUT
THERE IS POTENTIAL

Although several private sector projects have been underway for some time, most of AID's private sector projects are in the early stages of implementation or still being designed. Consequently, we found documented results to be limited. AID claims that financing of factory shells has attracted business investments which might not have otherwise occurred. In visits to selected factory shells, we verified that they were, in fact, being used. But, AID had not determined how many jobs have been created or how business expansion resulting from factory shell construction and other private sector projects had affected local economies. AID currently plans evaluations of at least two private sector projects in 1983.

AID officials told us they are confident that their private sector initiatives will increase investments, production, and employment in the near future. Much of AID's confidence appears based on potential results from projects begun in 1982 and planned for 1983. We agree with AID that if these projects achieve their stated objectives, they can have a substantial impact on economic growth in the islands.

Under the Project Development Assistance Program, AID signed a \$4.9 million contract with a major U.S. public accounting firm to station resident advisors in Antigua, Dominica, St. Kitts/Nevis, St. Lucia, St. Vincent, and Barbados to attract new foreign investment into the region, develop joint-venture opportunities, and assist in improving the productive capability of the private sector. The advisors, residing on the islands since January 1982 are supported by Washington-based contract staff responsible for investor search and technical assistance activities. AID estimated this project would generate over 40

¹ "Lessons Learned From AID's Private Sector Development Efforts in Egypt" (GAO/ID-83-18, Feb. 28, 1983).

development activities with particular emphasis on industrial development, agribusiness, alternative energy and related infrastructure improvements. Based on our discussion with the project team leader, these activities would in turn generate employment opportunities for 750 people by early fiscal year 1984, and between 3,000 and 4,000 over the 4-year life of the project. The interim job creation goal is based on the expectation that a U.S.-based sporting goods firm will begin operations in St. Vincent. According to AID, this firm signed an agreement to invest in St. Vincent as a result of AID's project assistance. As of December 1982, it had yet to physically locate and begin operations.

In addition, project contractors told us they have contacted various U.S. and foreign firms, including firms located in the nearby islands of Martinique and Haiti, to generate interest in establishing new or joint-venture operations in the Eastern Caribbean. One of the advisors told us he is particularly interested in attracting business currently located in the Far East. At the time of our fieldwork, however, no other firm commitments had been made. AID's anticipated results of its \$12 million assistance project to form a private sector bank could also result in substantial employment and economic growth. Labeled as the cornerstone of its private sector program for the Eastern Caribbean, AID hopes this facility will be operating by the end of fiscal year 1983. AID has projected that this bank could help create over 10,000 jobs.

AID STRATEGY RAISES POLICY ISSUES

Our analysis of ongoing or planned private sector projects raise several policy issues.

1. AID assistance is designed to promote both foreign investment and indigenous business expansion. Through the Project Development Assistance Program, AID contractors in Washington and on six Eastern Caribbean islands, have made hundreds of inquiries to persuade U.S. and foreign firms to relocate or expand their operations by investing in the Eastern Caribbean. AID should be alert to whether jobs might be relocated from the United States or be redistributed within the region. AID should also be alert to the types of business expansion resulting from its efforts. For example, labor intensive businesses which use locally available resources would have the greatest development impact. Should AID be more selective in the types of business activity it assists?
2. Immediate beneficiaries of AID's projects appear to be well-established business concerns in the region, such as national chambers of

commerce, corporations, and affluent private businessmen. While unskilled and unemployed workers are also expected to benefit from AID's private sector activities, they will not do so until businesses can provide them with jobs by expanding, relocating or starting new operations in the region. It is uncertain when and to what extent these traditional beneficiaries of AID programs will be affected. Can AID target its private sector projects so as to benefit the poor majority?

3. AID projects to promote private sector growth are expensive. AID will obligate about \$58 million for private sector projects in fiscal years 1982, 1983, and 1984. Given this amount, the cost per job created could be very high. For example, if these projects result in new and permanent employment opportunities for 10,000 people, the cost per job will amount to \$5,800. Will results achieved justify the cost?

We believe that evaluation of results achieved through AID's private sector program in the Eastern Caribbean will provide data concerning the impact and beneficiaries of its efforts which can be used to consider these policy issues. Because AID's private sector program both predates and parallels the development strategy emphasized in the proposed Caribbean Basin Initiative, an evaluation of results achieved can also guide the direction of future private sector programs throughout the Caribbean basin. While AID has made limited evaluations of some private sector projects, it has not yet attempted a comprehensive evaluation of all its private sector activities.

CONCLUSIONS

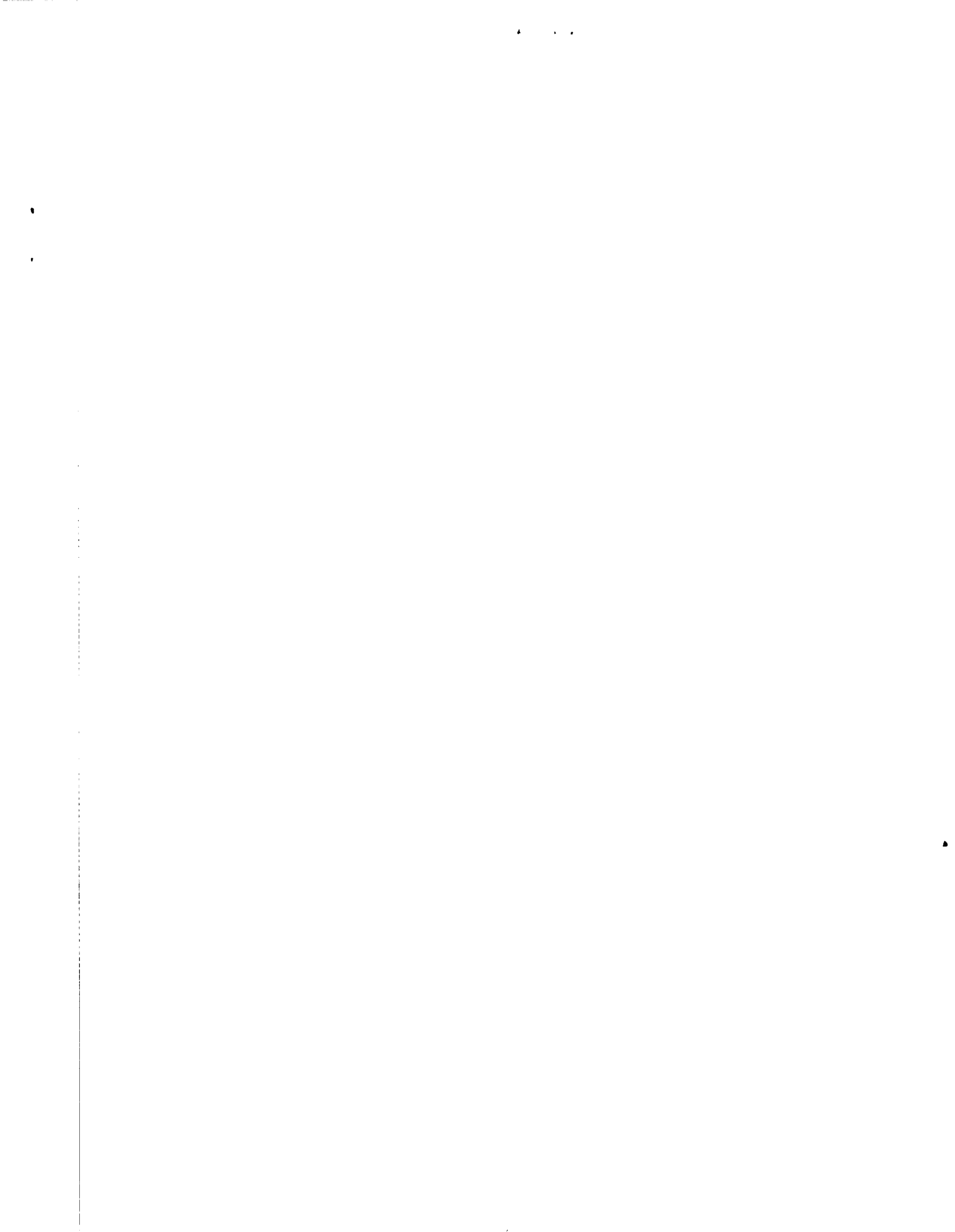
AID is proceeding with an ambitious and extensive program to assist private sector development in the Eastern Caribbean. AID believes that its private sector initiatives will soon begin to pay off in terms of creating better conditions for investment, identifying and developing investment opportunities, and generating employment. Although we agree with AID that private sector growth is vital for economic and political stability of these islands, our observations of AID's projects raise several policy issues as to the appropriate direction of AID's private sector program. Close monitoring and analysis of results achieved should provide data which can be used to consider these issues and guide future program direction.

RECOMMENDATION

Accordingly, we recommend that the Administrator, Agency for International Development, undertake a comprehensive evaluation of its private sector program in the Eastern Caribbean by

the end of fiscal year 1984 to measure (1) types of business activity resulting from AID's projects, their impact on the local economy, and persons benefited, including secondary beneficiaries; (2) if private investment caused jobs to be relocated from elsewhere; and (3) if results achieved justify the costs.

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