



1. Project Data :		Date Posted : 06/28/2000	
PROJ ID: P008100 OEDID: L3432		Appraisal	Actual
Project Name : Business expansion and industrial restructuring	Project Costs (US\$M)	49.5	27.27
Country: Trinidad & Tobago	Loan/Credit (US\$M)	27.2	22.4
Sector, Major Sect .: Financial Sector Development, Finance	Cofinancing (US\$M)	0	0
L/C Number: L3432			
	Board Approval (FY)		92
Partners involved :	Closing Date	06/30/1999	06/30/1999
Prepared by :	Reviewed by :	Group Manager :	Group:
Jorge Garcia-Garcia	Andres Liebenthal	Ruben Lamdany	OEDCR

2. Project Objectives and Components

a. Objectives

The relevant objectives of the loan were to finance and support business expansion in industrial and service enterprises, and to contribute to the social and economic development of the territory by supporting the development of an efficient and sound financial system . In essence, these objectives are the same than those stated in the SAR as "promoting the development and restructuring of private manufacturing or service firms (except primary producers of oil, gas or agricultural or livestock products), especially to enter and compete in export markets ." The ancillary objectives of the loan, as stated in the SAR, were "to: (a) support the development of an efficient and sound financial system; and (b) improve the technical standards used to assess the environmental impact of public and private sector projects in the country, and strengthen the capacity of the Town and Country Planning Division (TCPD) to review environmental impact assessment (EIA) reports." The loan agreement stated these objectives in different manner, but the substance is similar to the SAR's .

b. Components

1. **Credit Line** . It provided \$20 million to help private enterprises finance a wide range of investments, including plant and equipment, incremental working capital and technical services related to development of productive activities within a liberalized incentive regime . In 1995 the Government and the Bank agreed to reduce its size to \$ 15 million, and in 1998 both agreed to increase it to \$ 18 million.

2. **Technical Assistance** . The component provided \$7.2 million to finance:

- (a) the establishment of an Export Technical Assistance Facility to assist private manufacturing and service firms to enter into new markets (\$1.5 million). Companies would pay 50 percent of the assistance;
- (b) technology infrastructure in the areas of metrology, standards and quality assurance for the Trinidad and Tobago Bureau of Standards and the Caribbean Industrial Research Institute (\$3.4 million);
- (c) the development of improved environmental pollution control standards to evaluate investment proposals and strengthen TCPD's capacity to review environmental impact assessments (\$0.79 million);
- (d) three studies on the role of private investment in the steel and petrochemical industries, the effectiveness of the foreign investment regime, and a new foreign investment promotion strategy (\$0.85 million); and
- (e) assistance to the Ministry of Finance to strengthen the regulatory framework for the insurance industry (\$0.25 million).

3. Trade policy reform and regulatory regime for commercial banks . The loan agreement and the minutes of negotiations included as loan conditions the elimination of quantitative restrictions on imports (QRs), maintaining the trade reform program agreed under the Structural Adjustment Loan of November 1989 and the preparation and issue of norms for regulating and supervising commercial banks . Meeting these conditions was necessary for the Bank to disburse loan proceeds for the credit line exceeding \$ 7.5 million.

c. Comments on Project Cost, Financing and Dates

1. **Credit line** . Out of an initial value of \$20 million, the Bank disbursed \$ 16.1 million and cancelled \$3.9 million.

2. **Technical assistance** . Out of an initial value of \$7.2 million, the Bank disbursed \$6 million and cancelled \$1.2 million. The Bank disbursed \$1.069 million for the Export Technical Assistance Component . The ICR does not break down disbursement for the other components because neither the Bank nor the country have that information readily

available.

3. Achievement of Relevant Objectives :

1. **Credit line** . The loan achieved its objective of financing and supporting business expansion in industrial and service enterprises . It also supported the development of an efficient and sound financial system .
2. **Technical assistance** .
 - a. *Export technical assistance* . It helped to support industrial and service enterprises in order to make them more export oriented and internationally competitive .
 - b. *Technology infrastructure* . It helped create the conditions for firms to adopt technical and quality standards of international level, and to become export oriented and more competitive .
 - c. *Environment* . It helped to strengthen TCPD's capacity to review environmental impact assessment, but it failed to help develop a set of environmental standards and mitigating measures for screening investment projects .
 - d. *Studies* . The study for the steel industry strengthened the government's capacity to establish appropriate policies, institutions and programs to attract private participants in the sector, and to make informed decisions about development strategy and investment choices . The foreign investment promotion study assessed the effectiveness of the recently issued foreign investment regime and developed a program for promoting the country as an attractive location for manufacturing and service industries .
3. Trade reform and supervision of commercial banks . The loan achieved its objectives of removing most QRs affecting the non-oil manufacturing sector and improving the regulatory regime for commercial banks .

4. Significant Outcomes /Impacts:

Project's general objective : To finance and support business expansion in industrial and service enterprises, and to contribute to the social and economic development of the territory by supporting the development of an efficient and sound financial system . This was achieved in five ways:

1. By lending to companies at market rates of interest, in a country that had liberalized its financial sector substantially . The companies paid their loans back and none are reported to have made bad investments . The fundamental objective, that companies added value with their new investments, was achieved .
2. By giving technical assistance to companies, which paid 50 percent of the value of the technical assistance received .
3. By financing studies that helped (i) establish appropriate policies for the steel industry; (ii) attract private participants in the sector which led, as a result, to privatizing the steel industry; and (iii) assess the effectiveness of the recently issued foreign investment regime .
4. By removing QRs on non-oil manufacturing imports .
5. By strengthening the supervision and regulation of commercial banks .

Ancillary objectives

1. *Support the development of an efficient and sound financial system* . This was achieved because the government adopted a sound system to regulate and supervise commercial banks , and because it continued with sound financial sector policies as stated in the government's development letter to the Bank .
2. *Improve environmental management* . The two objectives under this heading were (i) to improve the technical standards used to assess the the environmental impact of public and private sector projects; and (ii) strengthen the capacity of the Town and Country Planning Division to review environmental impact assessment (EIA) reports. The first of these two objectives was not achieved, while the second was achieved partially .

5. Significant Shortcomings (including non-compliance with safeguard policies):

1. Poor financial management of the project accounts by the Bank and the Borrower is its most significant shortcoming .
2. The Government did not issue environmental standards legislation;
3. The Government did not carry out the study for the regulatory framework of the insurance industry;

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Unsatisfactory	Unsatisfactory	The ICR judged this project unsatisfactory because of its mixed implementation record and the marginal contribution to achieving project objectives. A detailed analysis of the reasons presented in the ICR, of the achievements that the ICR listed, of those that it left out, and of the commitments made (minutes and policy letter in the

			SAR) and actions taken does not warrant that conclusion. However, the outcome must be rated unsatisfactory because of the poor financial management of project accounts. See Section 4 above.
Institutional Dev .:	Partial	Modest	The loan supported the removal of QRs on non-oil manufacturing imports and the establishment of a good regulatory and supervision system for commercial banks. Indirectly, the project helped in privatization process of the steel industry .
Sustainability :	Uncertain	Likely	The following achievements are likely to continue: a. Policy framework for financial sector; b. Higher quality standards; c. Firms that received technical assistance will keep the knowledge acquired; d. Study helped in privatization of the steel industry, a decision likely to be maintained.
Bank Performance :	Deficient	Unsatisfactory	Bank overlooked financial management of project
Borrower Perf .:	Deficient	Unsatisfactory	Management unit managed the project's financial accounts poorly
Quality of ICR :		Unsatisfactory	

7. Lessons of Broad Applicability :

Bank loans that intend to promote financial intermediation in countries with market -based financial policies seem to have a positive but small (no harm) effect on the economy .
Programs aimed at upgrading industrial standards can succeed and bring important benefits when supportive trade and macroeconomic policies are in place .
Companies, even small ones, are willing to pay for technical assistance when that technical assistance brings clear benefits to them; open trade regimes and moderate fiscal and monetary policies increase the benefits of such assistance .

8. Audit Recommended? Yes No

Why? 1. The fundamental reason for auditing this loan has to do with the inadequate auditing and accounting practices of the Bank and the Government . 2. Audit should look at how reasonable it is to provide credit to financial intermediaries when the country (in this case Trinidad-Tobago) has a sound financial policy .

9. Comments on Quality of ICR :

The ICR provides some of the information to judge the loan's outcomes, achievements and shortcomings, but that information had to be complemented with extended discussions to get to know the project's achievements and shortcomings. The ICR missed actions that the loan supported, actions which went beyond the credit line and the technical assistance component. The Government committed to remove QRs on non-oil manufacturing products, to issue regulations governing the operations of financial intermediaries (Act), and to apply prudential criteria for the supervision and regulation of financial intermediaries . The loan also led to more transparency in financial markets by requesting the Central Bank publish the prevailing market rates of interest .

The ICR does not match properly the objectives achieved and actions taken .