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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D. C. 20523

CAPITAL ASSISTANCE PAPER

? 538-005

Proposal and Recommendations
For the Review of the
Development Loan Committee

ROCAP - LATIN AMERICAN AGRIBUSINESS DEVELOPMENT CORPORATION

5/28/71

AID-DLC/P-972

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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

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AID-DLC/P-972

May 28, 1971

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: ROCAP - Latin American Agribusiness Development
Corporation (LAAD)

Attached for your review are the recommendations for authorization of a loan in an amount not to exceed \$6,000,000 to the Latin American Agribusiness Development Corporation (LAAD) to assist in financing the United States dollar and local currency costs of a program to provide long-term financing and technical assistance to agribusiness projects and to develop the basic mechanics of a capital market in Central America.

This loan proposal is scheduled for consideration by the Development Loan Staff Committee at a meeting on Friday, June 4, 1971.

Rachel R. Agee
Secretary
Development Loan Committee

Attachments:

Summary and Recommendations
Project Analysis
ANNEXES I-IX

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May 28, 1971

LATIN AMERICAN
AGRIBUSINESS DEVELOPMENT CORPORATION, S. A.
(LAAD)

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LATIN AMERICAN AGRIBUSINESS DEVELOPMENT
CORPORATION S.A. (LAAD)

SUMMARY AND RECOMMENDATIONS

1. The Borrower:

The Borrower is the Latin American Agribusiness Development Corporation (LAAD) S. A. LAAD was incorporated in Parama on January 26, 1970, as a private corporation designed to contribute to the development of agriculture in Latin America. It has an authorized capital of \$15 million. Present paid-in capital is \$2.4 million.

With headquarters at 680 Fifth Avenue, New York City, LAAD recently established its first regional office in Guatemala City as the initial step in launching the program discussed in this paper. In addition, it proposes to establish a Central American subsidiary also located in Panama which will be created solely to conduct LAAD's agribusiness activities in the five member countries of the Central American Common Market (CACM), and which will be open to Central American equity participation.

LAAD's twelve organizers and shareholders, oriented to agribusiness and having operations or a demonstrated interest in Latin America, are listed in Section I-A, and its Directors are shown in ANNEX II.

2. The Loan - Amount and Terms:

The loan is not to exceed an amount of \$6 million. It will be repaid over a twenty-year period, including a five-year grace period on amortization of principal. Interest on the disbursed balance will be at the rate of 3%. The loan is expected to be committed within two years and disbursed within three years.

3. Purposes:

The purposes of the LAAD loan are (1) to support and substantially augment the capabilities of a unique regional private sector effort to deal with Central American agribusiness, as a total interrelated process, with the emphasis on the promotion of non-traditional exports; and (2) to contribute to the development of a capital market in Central America, as a continuing source of financing for agricultural development, and to introduce specific procedures for transferring the ownership of LAAD's investments, and other enterprises, to local investors over a broad base of public ownership.

4. Project Description:

After years of analysis and operating experience in Latin America, LAAD's twelve shareholders are convinced that agricultural development, hence economic growth, in Latin nations has constantly been frustrated by weak marketing and distribution mechanisms. They have concluded that this deficiency has stifled many opportunities for the profitable application of capital, management, training and technical assistance throughout Latin America, and particularly within the five nations of the Central American Common Market (CACM), where LAAD proposes to lay special emphasis.

LAAD recognized, however, that while improved techniques can dramatically increase rural income, the mere creation of profitable enterprises by foreign capital does not guarantee improvement in a nation's real wealth. This requires a more rapid rate of domestic capital accumulation. To this end, LAAD's investment policy stresses the transfer of ownership to local investors on the broadest possible basis. LAAD's strategy will be to invest in existing as well

as new enterprises, modest in size, which produce, process, transport, distribute and market agricultural products.

LAAD's unique concept presents a new departure in development assistance, introducing a realistic program which hopes to demonstrate that private initiative and investment, in cooperation with the U.S. Government, can make a major contribution to the economic development of Latin America.

As an entrepreneurial investment corporation, LAAD will promote, finance and implement agro-industrial enterprises and provide technical assistance to the projects that it finances. These services will be extended by LAAD's own shareholders without cost to LAAD or the sub-project. (See Section I-A-3(d) for LAAD policy). The combined skills and experience of LAAD's shareholders in agribusiness activity, from growing to marketing, constitute the Borrower's major strength. Each shareholder maintains technicians in Central America whom LAAD can call upon freely and frequently to provide advice and assistance.

LAAD will work closely with CABEI (which has endorsed this program) and other national development banks in the region to participate jointly in the financing of new and expanding enterprises. LAAD will take the leadership in promoting the development of such projects. As a major feature of this program, it will provide the financing for equity capital so often in short supply.

AID funds will be used by LAAD to finance the costs of goods and services of new and expanding agricultural industries, or service industries related thereto. They will be loaned to sub-borrowers in the form of long term secured loans, in many cases in participation with

national development banks, or as long term subordinated loans with an equity convertible feature (quasi-equity). When sub-borrowers, through improved earnings, become attractive investments, the convertible debt will be repaid by sub-borrowers from earnings and/or by sale of equity shares to local investors within the CACM. The latter will be facilitated through procedures established by LAAD. Up to \$200,000 in AID funds may be used to finance consulting services contracts for feasibility studies and/or technical assistance for project development. LAAD's own funds will be used to invest in a sub-project's equity (for resale at a later date).

It is estimated that a sum of \$2.0 million (33%) of the loan will finance foreign exchange project costs (primarily US) and up to 4.0 million (67%) is proposed for financing local costs - i.e. procurement of goods and services in CACM countries.

5. Total Cost of Project

Direct LAAD commitments in Central America are estimated to be no less than \$8.0 million over the next two years. Six million of this amount would come from the AID loan, and \$2.0 million from LAAD's capital which presently stands at \$2.4 million, paid in. Other resources will be sought in the U.S., Latin America and Europe to support the Central American program, but are not contemplated during the initial stages of the AID loan.

It is anticipated that the LAAD program in Central America will provide for a total investment of approximately \$40 million over the three year drawdown period of the AID loan, as shown below:

SOURCE OF FUNDS
(in millions U.S.\$)

A.	B.	C.		D.		
<u>A.I.D.</u>	<u>LAAD</u>	<u>Private Investors</u>		<u>Other Loans</u>		<u>Total</u>
		<u>Local</u>	<u>Foreign</u>			
6.0	2.0	8.4	4.4	19.2	=	40.0
15%	5%	21%	11%	48%	=	100%

A. AID Loan: \$6 Million

About \$4 million of the AID loan, plus a good portion of the LAAD contribution and private investors' contribution are expected to form total capital (equity) funds of sub-projects. The AID \$4 million will be relent to agribusiness enterprises in the form of subordinated convertible loans or debentures (quasi-equity). The remaining \$2 million in AID funds would be relent in the form of conventional secured loans. AID funds will finance the foreign exchange costs (area code 941) of equipment and consulting services (feasibility studies), and local costs of materials and construction.

B. LAAD Contribution: \$2 Million

LAAD contribution will be directed to common share equity investments and various types of debt financing in sub-projects. It will cover local costs of goods and services, including some working capital, and possibly some procurement from Europe and Japan.

C. Private Investors Contribution: \$12.8 Million

It is estimated that \$8.4 million will be contributed from Central American investors and will cover costs of land and working capital requirements. The balance of \$4.4 is expected to come from European sources

and will finance primarily European equipment and some local installation costs.

D. Other Loans - \$19.2 Million

This relates to long term secured loans from CABEI and the national development banks, which will largely finance foreign exchange projects costs and construction contracts. Of this amount it is estimated that up to \$4.8 million (12%) could be AID funds originating from other programs, such as the \$30 million AID loan (#010) to CABEI. While LAAD and CABEI will be taking financial participations in the same projects, overall AID exposure in any one project will not be excessive and will be analyzed by CABEI and LAAD to assure an acceptable ratio of AID funds to a sub-project's overall debt.

6. EXIMBANK and Alternative Sources of Financing

The EXIMBANK formally informed AID on March 25, 1971, that it was not prepared to consider this loan. The IBRD and IDB (letters of March 29, 1971 and May 24, 1971, respectively) have expressed no interest in the loan.

7. View of ROCAP

ROCAP places a high priority on this loan, and urges its early approval at the amount and terms recommended. The LAAD project is closely allied with the \$30 million loan extended to CABEI by AID last year. The goals of the CABEI project and the LAAD proposal are directly responsive to President Nixon's program priorities for FY 1971 - trade expansion, private enterprise participation and capital market formation.

8. Statutory Criteria

All statutory requirements of this Foreign Assistance Act have been met. (Annex I).

9. Issues

a. Local Cost Financing

ROCAP proposes that up to \$4.0 million (67%) of the loan be made available for financing the local costs of goods and services in the Central American Common Market area. The lack of sufficient local cost financing could pose a serious handicap to LAAD in carrying out an effective export oriented, agribusiness development program.

It must be LAAD's function to operate under policies which are consistent with the needs of agriculture, not those of the lending institutions. LAAD is compelled, at the same time, to adhere to these policies in a manner which minimizes risk of losses. It will be difficult to achieve this, and would be impossible to do so without being able to use a large portion of the AID loan for local procurement. The priority categories that LAAD intends to give attention to have a very high local cost content. For example, LAAD will be involved in the financing of construction and the procurement of seeds, fertilizers, herbicides, breeding stock, etc., items which can be procured locally. The absence of financing for these items, especially in the case of non-traditional crops, is a major bottleneck today in Central America.

A precise estimate of ratio of local to U.S. procurement would be of doubtful credibility. The general requirements of a particular industry do not necessarily indicate what might be the requirements of a particular project within that industry. This point is especially pertinent when considering the fact that a part of the AID loan will be directed to sub-projects in consortium with development banks that have also received assistance from AID and other international lenders. The development banks will surely demand the right to fi-

nance the foreign exchange component of projects, in order to dispose of their loan funds that are tied for such procurement. The issue is further complicated by the fact that most of these institutions are reluctant to finance anything but the "hardware" requirements of the agribusiness sector. The remaining and normally more urgent requirements will be left to LAAD.

While it is not possible to make a precise estimate, LAAD has attempted to support its request for local cost financing by projecting the sub-project use of both local and foreign exchange funds (shown separately) in its three-year Source and Application of Statement (see Annex III, Exhibit D and the Summary Projections shown in the Financial Analysis, Section IV). LAAD's projections, based on the AID loan and its own contribution, estimate a total need for \$6 million in local costs and \$2 million for foreign exchange. To cover the local costs, LAAD will earmark its entire contribution of \$2 million (a portion may be set aside for non-U.S. equipment), and to make up the difference is requesting \$4 million from the AID loan. Local private investors' contribution will be confined to land acquisition and working capital. The AID loan will finance the entire \$2 million in estimated foreign exchange project costs.

Given the extreme importance of local currency to the LAAD program, and for the reasons and justification stated above, ROCAP believes that allocating \$4.0 million of the Loan for local costs is realistic and necessary for LAAD to meet the objectives of the program.

10. Recommendations

Authorization of a loan in an amount not to exceed \$6,000,000 of which up to \$200,000 may be used

for financing professional service contracts (feasibility studies and technical assistance).

A. Terms

- 1) Amortization - 20 years
- 2) Grace period on principal repayment - 5 years
- 3) Interest - 3%

B. Conditions

1) Conditions Precedent to Initial Disbursement

Prior to the first disbursement or to the issuance of the first letter of commitment under the loan, the Borrower shall, except as A.I.D. may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., the following:

- (a) a plan for the objective and comprehensive review of all investments and sub-loans by Borrower to assure that such activities are feasible, economically justified and technically sound;
- (b) a statement of the standards and procedures it will follow in making and administering investments and sub-loans and in providing technical assistance;
- (c) a plan for the periodic audit of sub-loans;
- (d) an opinion or opinions of counsel, acceptable to AID, that Borrower has the necessary legal authority to do and perform the activities that it has undertaken in the loan in accordance with the laws of the countries in which it proposes to conduct business;
- (e) a certified copy of its corporate charter and by-laws and a copy, duly attested by the Secretary of the Borrower, of Borrower's operating policies which shall include but is not necessarily limited to an administrative and technical staffing plan of its Central American office; a financial plan for the establishment of an adequate re-

serve for the payment of this Loan; and a plan for a subsidiary which would limit its activities only to Central America and the sale of its equities to Central American investors.

2) Unless A.I.D. otherwise agrees in writing, Borrower shall not:

(a) amend or modify its corporate charter, by-laws, or operating plans;

(b) finance from A.I.D. funds any sub-project or sub-borrower in excess of two hundred thousand U.S. dollars (\$200,000) or the local currency equivalent thereof or any combination thereof;

(c) make sub-loans for less than three years or charge a rate of interest (including all discounts, fees, commissions, or other charges) in excess of 9% per annum on the disbursed balance of the sub-loan;

(d) make sub-loans or investments of the A.I.D. loan which exceed a ratio of three times the amount of sub-loans or investments from Borrowers capital;

(e) make sub-loans or make equity investment in activities in which Borrower's shareholders or officers or employees have an equity interest;

(f) make sub-loans from A.I.D. funds to partially finance activities which are utilizing "tied credits", from other than the United States, which are on terms less favorable as to source and origin of goods as are authorized under this loan;

(g) incur any indebtedness for a term exceeding one (1) year without the prior approval of A.I.D.;

(h) incur any indebtedness which would enjoy a senior position to the obligation incurred under this Loan;

(i) make sub-loans from A.I.D. funds for working capital except for financing costs of raw materials (inventory);

(j) maintain a reserve for bad debts of less than 2% of its total sub-loan portfolio;

(k) declare or pay dividends (of any nature whatsoever) except out of accrued earnings and then only after the five year grace period of the A.I.D. loan and reserves adequate to service the A.I.D. loan have been, as agreed in writing by A.I.D., established by the Borrower;

(l) use more than four million United States dollars (\$4,000,000) to finance Central American goods and services;

(m) alienate any sub-loans by hypothecation, pledge, assignment or otherwise;

(n) appoint a person as its Central American representative who has not been approved in advance by A.I.D.

3) Prior to the disbursement of more than one million dollars (\$1,000,000) of loan funds, a joint review of the progress of the program shall be held by the Borrower and A.I.D., and thereafter when successive units of \$1 million are to be disbursed.

4) The loan shall be subject to such other terms and conditions as A.I.D. shall consider appropriate.

11. Project Committee

Capital Development Officer	- Warren Wolff
Economic Advisor	- Paul Montavon
Regional Legal Advisor	- Robert Parker
Agricultural Advisor	- Gerard Horne

Drafted by:WWolff/PMontavon/GHorne: 5/14/71

Approved by:DIR:Oliver L. Sause

May 28, 1971

I. BACKGROUND

A. Borrower

1. Legal Status

Through the collective efforts of its founding stockholders beginning in 1968, LAAD was created and organized "as an action response of private enterprise to deal with bottlenecks to the orderly development of agribusiness in Latin America". LAAD was incorporated in Panama as a private development corporation on January 26, 1970. Its main office is at 680 Fifth Avenue, New York, N.Y. and a Central American Office was recently established in Guatemala City. Shown below is a list of LAAD founders and shareholders:

ADELA Investment Company, S.A.
Bank of America N.T. & S.A.
Borden Inc.
Cargill, Inc.
Caterpillar Tractor Co.
CPC International Inc.
Deere & Company
The Dow Chemical Company
Gerber Products Company
Monsanto Company
Ralston Purina Company
Standard Fruit & Steamship Company

The AID loan will be made to LAAD and passed on to a LAAD-owned subsidiary to be domiciled in Panama. The new company will operate only in the five CACM countries. Its initial paid-in capital will be set at a level satisfactory to AID and LAAD and will be increased over the two-year commitment period of the loan to comply with the 3 to 1 AID/LAAD participation ratio.

At the outset, the Central American company will be entirely owned by LAAD and will have the same Board of Directors. Its authorized capital will provide for the participation of Central American shareholders.

As a condition precedent to initial disbursement, LAAD will submit its plans, including charter, by-laws, policies, etc. for establishing the subsidiary, and a plan for the sale of its equities to Central American investors, satisfactory to A.I.D. The latter will emphasize the need for LAAD to concentrate its efforts in selling its shares within the CACM.

2. Organization

LAAD's senior staff presently consists of its President, Mr. James T. Halom, whose office is New York, and Mr. Thomas W. Mooney, Regional Representative for Central America, with an office in Guatemala City.

For the balance of 1971, and perhaps early 1972, the initial staff of the Guatemalan office will include, in addition to the Regional Representative, an

Assistant Representative with training and experience in agribusiness and finance, and an Administrative Assistant, trained in office management, who will have major responsibilities with the AID loan, preparing reports and complying with various requirements. Office Staff technical expertise will be retained on a part-time basis at first. These individuals and their curricula vitae will be included as part of LAAD's submission to satisfy the conditions precedent to initial disbursement requiring an administrative/technical staffing plan. This plan should show that LAAD has already employed at least the minimum staff, outlined above.

A major justification for recommending a 3% AID loan and a 6% interest spread is to give LAAD the revenue to cover its Central American administrative expenses, including the essential but expensive technical expertise. (See Section IV D). The Project Committee, therefore, places great importance on LAAD's staffing plans and will review them with care. While LAAD maintains a New York office and has plans to open others, the Project Committee expects that LAAD's administrative budget for its Guatemala office will be commensurate with the proportion of its capital being reserved for the Central American program. The Project Committee will ask LAAD to clarify its projected operating expenses (see Annex III Exhibit C) to be consistent with the proportion of reserved capital and the expected earnings of the Central American program.

All Central American requests for investment funds and loans will be developed and analyzed in the field and sent to New York for management approval and presentation to a Credit Committee composed of five members of LAAD's Board of Directors.

Annex II lists the names of the LAAD Board of Directors which is composed of representatives from each shareholder and its President, Mr. Halom. Members of the Credit Committee are indicated by asterisks.

3. Investment and Operating Policies

LAAD investments and loans for this program are subject to the following policy statements:

a. Investment Limits

(1) The maximum equity position taken by LAAD will not exceed 49%, and will rarely be less than 10% of a company's total capital. Average holdings of equity will range from 20 to 30%. Larger positions will normally be taken only (a) when projects are small, and (b) when LAAD is purchasing shares for the express purpose of placing them, performing an underwriters' role.

(2) LAAD's Central American equity portfolio will not at any time exceed the total of its own capital committed to the region.

(3) LAAD has set no specific percentage limitations as to its maximum or minimum participation in debt financing of any specific project. Its debt financing will normally complement funds provided by Central American institutions. In these cases, it will usually either be the lead participant or fill gaps in financing.

(4) LAAD's total participation (debt & equity) per project will not normally exceed 5% of LAAD's resources committed to the Central America program. These are estimated not to exceed \$8.0 million (\$6.0 million AID loan and \$2.0 million LAAD capital) over the two-year commitment period of the AID loan.

(5) No specific numerical minimum is set respecting the amount of funds LAAD may provide a project. A 20% participation in the total resources of a small project will sometimes be \$25,000 or less.

Special criteria will govern analysis of small projects, since the cost of analysis, implementation of LAAD's participation and project supervision will be high, relative to LAAD's commitment. These projects must have an extraordinary growth potential and be of particularly high priority in terms of their contribution to LAAD's objectives.

b. Investment Guidelines

LAAD's analysis of projects will lay greatest emphasis on:

(1) The character, ability and experience of management and sponsors.

(2) Market (present and prospective) of a project's product.

(3) Technical feasibility in terms of available human skills, present and prospective material supply at appropriate costs and prospective technological development which could adversely (or favorably) affect the project.

(4) The consistency of projects' purposes with the goals of host country economic authorities.

(5) The availability of complementary financing to provide for a project's implementation and continuing operation.

(6) The capability of projects to function profitably without inordinately high protection or special benefits and to be able to perform in the foreseeable future in the absence of both.

(7) The submission by sponsors, at least annually, of financial statements prepared and audited by qualified Certified Public Accountants.

c. Terms and Conditions of Financing

(1) Terms and conditions of LAAD financing will vary depending upon the requirements of projects, risk involved, and source (terms) of loanable funds.

(2) Loans will be denominated in US dollars or such other currencies available to LAAD. Loans and equity investments will be registered to provide for convertibility, LAAD will require collateral or guarantees on loans, though this requirement may be waived in cases where LAAD loans are subordinated to certain Central American institutions and when a convertible feature (quasi-equity) exists.

d. Feasibility Studies and Technical Assistance

(1) The feasibility studies and technical assistance to be financed with the proceeds of the loan are distinct from service to be provided by LAAD shareholders. LAAD anticipates that the latter will be extended without cost to LAAD or the recipient project. It is conceivable, however, that in exceptional cases a LAAD shareholder might be asked to commit a key man or group of men over an extended period of time. In such cases it might be appropriate that the project receiving the service cover out-of-pocket expenses and even salaries. These costs would be paid by the project's own resources, not LAAD financing. No such cases are contemplated now and should they arise they would not provide for any profit to the shareholder.

(2) Technical assistance financed with AID funds would be carried out by individuals or firms possessing very specialized skills not available from LAAD's shareholders. AID financed feasibility studies undertaken to determine project viability would not be performed by LAAD's shareholders but by firms satisfactory to AID. Normally the costs of AID financed

assistance and studies will be passed on to the projects.

e. Project Promotion and Supervision

(1) LAAD's contributions in the areas of promotion and supervision constitute a major part of its justification as an institution. It will occasionally be an innovator, but will normally perform as a structurer of partially developed, promising ideas into projects. It will follow these projects through the structuring of their ownership, financing, and implementation, including initial operations.

(2) LAAD's supervisory role during the critical early years of the operations of projects will extend beyond the requirement of submitting periodic financial progress status reports. LAAD will participate promptly in the solution of problems that appear in reports or that come to light through consultation and periodic project site visits.

(3) LAAD will maintain resident staff in regions where it operates in order to assure the capable performance of its tasks. It will normally serve on the Boards of Directors of companies in which it has an equity participation.

f. Sources of Income

(1) Interest on loans, dividends and capital gains will constitute LAAD's major source of income. It will expect to recover the direct costs of analysis and supervision when these services are provided to an extraordinarily high degree. No profit will be derived from the provision of these services.

(2) Income from the investment and loan portfolios may be augmented through the provision of

certain services. These will normally be for underwritings and related investment banking activities.

g. Sales of Investments

LAAD must rotate its investment portfolio at satisfactory terms in order to maintain a capability to invest in other activities. No specific date can be set for the divestment of any equity holding; capacity to sell depends on the presence of a market. Shares will not be marketable at a reasonable price, if at all, until the projects they represent are operating at a profit and paying dividends. In most Latin American countries, large blocks of shares even in profitable projects must be placed over a prolonged period of time, or must be financed by the seller.

To provide for capability to carry out placements, LAAD is establishing relationships with existing companies which can extend brokerage services and is creating others. LAAD will provide for term payment for shares placed through these brokerage companies.

h. Capital Markets

The establishment and strengthening of brokerage services constitutes one form of contribution to the development of capital markets. It is, in fact, a contribution which LAAD is compelled to make because of its need to rotate portfolio and acquire income. A further contribution will be made at the time LAAD enters into projects. LAAD will provide financing in a variety of forms including principally term loans, convertible debentures and equity. It will never, however, provide all or even most of the financing a specific project requires. As a promotional institution it will normally be LAAD's function to mobilize total packages of funds. Debt financing is available from CABEI and a number of other institutions. The mobilization of equity will be the more demanding

task. To accomplish this LAAD proposes to form syndicates of underwriters of which it itself would be the lead participant. Other members of these ad hoc groups set up to deal with specific projects will include private and public development banks, the brokerage services mentioned above and special institutions which relate to specific industries such as growers associations.

Underwritings will be of both the "best efforts" and "firm" variety. For some time to come it will be difficult to convince Central American institutions to join the latter type underwriting. In some cases LAAD will take equity positions for the specific purpose of placing the larger part of it as quickly as possible through brokerage services. This is likely to be the case with the transportation project briefly described in Annex V.

The mechanics of placements will vary according to the nature of the share and the company it represents. In some cases substantial placements will be made with companies or individuals which can give strong support to a project. In the transportation project the ocean shipping service can be best supported by having as shareholders trucking and warehousing companies, shipping agents, freight forwarders and prospective users of the service including slaughterhouses, flower and vegetable growers, etc. In some cases sales will be predominantly in small lots to middle and lower middle income buyers - on a very broad basis. The cost of such sales is relatively high but the benefits of broad participation are so great that LAAD expects to emphasize this type of activity.

II. THE PROJECT

A. Summary

1. Uses of AID Loan

LAAD is an equity-oriented agribusiness investment company. The Loan will be used, therefore, for the following purposes:

a. Subordinated Convertible Sub-Loans

Amount: Approximately \$4.0 million
Terms: No less than three years
Interest: 9% average

Subordinated sub-loans (convertible debentures) constitute quasi-equity and will be provided to sub-borrowers in consortium with secured sub-loans (senior debt) extended by CABEI and other Central American institutions with which such a relationship appears to be appropriate and prudent.

This type of debt will be converted into common shares when the borrowing enterprise becomes attractive as an investment, and when, through LAAD's assistance, a market can be found for its shares.

The subordinated debt feature (fixed interest) gives LAAD the advantage of financing equity, which is in short supply, and the capacity to generate income to repay its borrowings - i.e. the AID Loan. LAAD could not take direct share positions with the AID Loan and still have the assured capability of serving its debt. LAAD will work out arrangements to secure its subordinated sub-loans - after coverage of the senior debt participant - with the participating bank and sub-borrower.

b. Secured Sub-Loans

Amount: Approximately \$2.0 million

Terms: No less than three years

Interest: 9% average

This type of financing is the more common form of long-term lending, and will enjoy a position equal to other creditors - development banks in the region. While this appears at first glance as competitive with other regional institutions, it is in fact not the case. Central America's development banking system has not emphasized high-risk agribusiness activity. LAAD will structure and prepare projects in this category, and will in most cases invite Central American institutions to participate in them. Experience to date shows these institutions will prefer to share the burden of risk and the work of analysis and supervision with LAAD when financing agribusiness enterprises.

On the other hand, those projects which LAAD finances without participation of the existing development banks will be small ones, and will be projects which would not have existed had LAAD not promoted them, or, in cases where they are already developed and are seeking financing, are not of interest to existing banks.

There will be some future potential for competition between LAAD and the development banking system. If the latter chooses to become more active in agribusiness because of LAAD's leadership, the AID Loan will have achieved an important objective precisely because it promoted competition and stimulated the banks into taking a greater responsibility in financing sound agricultural projects.

c. Feasibility Studies and Technical Assistance

\$200,000

LAAD wishes to earmark a portion of the above funds to finance for its own or sub-borrower's account professional services contracts for undertaking feasibility studies, and under certain conditions to finance technical assistance, not involving LAAD's shareholders. (See Section I A-3(d)). LAAD may also wish to use these funds to undertake certain studies or finance technical assistance with respect to capital market formation.

2. Collateral for AID Loan

During the Intensive Review, efforts were made to obtain individual guaranties from LAAD's stockholders to secure the outstanding balance of the AID Loan. For various reasons - primarily complications in obtaining approval of a contingent liability from each shareholder's Board - LAAD's management suggested an alternative solution. LAAD proposed at a recent meeting with LA/DR officials a "Negative Pledge Agreement", the language of which appears in the paragraph A (Covenants) of Section V. The Project Committee recommends that this covenant be accepted and included in the Loan Agreement.

3. Eligible Enterprises

LAAD is prepared to make direct investments in the form of share subscription and sub-loans, either convertible debentures or secured loans, to agribusiness enterprises in Central America. Special emphasis will be placed on dealing with bottlenecks in an effort to contribute to an orderly inter-relationship of the various components of the

grower-to-market process. Types of enterprises eligible for AID financing will include: (i) cultivation of crops and livestock; (ii) processing, packaging, refrigeration, warehousing, transportation and marketing of agricultural products; and (iii) the development and employment of capital market devices necessary to provide for an orderly flow of funds to agribusiness (AID funds would be used in this category only to finance studies).

4. Use of LAAD Funds

LAAD has agreed to place \$2 million of its capital into Central American investments and loans. \$1 million of its equity will be used to purchase common shares for which no return can be expected for at least five years, and \$1 million will be directed to various forms of debt financing of projects which meet the general criteria set for AID funds. In addition to the \$2 million, LAAD will contribute additional funds to finance the initial operating expenses of its Guatemala office, until such time that its Central American operations become self-financing.

B. General Description

Production, storage, refrigeration, processing, packaging, transport and marketing are the major components of the agribusiness process. Each activity is critical in the supply system from grower to ultimate consumer. To the extent that one of these activities is inadequately or inefficiently performed producers' opportunities are constrained and the wastes and losses restrict supply to the consumer. In many instances the production component is already more advanced than the post-production components. The possibility of applying improved production techniques is thus often rendered economically unfeasible because of deficiencies in the other

essential elements of the process. By concentrating on these key deficiencies LAAD's activities can support and enhance the fruitfulness of the development efforts of other participants in the total process. At the same time, these activities can influence the pace and direction of complementary efforts by CABEI, private investors, and other entities, including ROCAP's own efforts in this area.

LAAD will work closely with CABEI and other national development banks in the region to provide complementary debt or equity financing to those enterprises which will form a part of the integrated system. Equity financing is a key input to developing new enterprise, and LAAD proposes to use its funds, the funds of local investors and the proceeds of the AID loan (subordinated loan with convertible feature) to fill this need. Once an enterprise has obtained its equity financing, partially through LAAD, it will then be in a position to request short-and long-term secured financing from commercial sources and the development banks, especially CABEI, within the region. Many excellent loan applications received by CABEI under AID's \$30 million loan cannot obtain adequate loan financing because of the difficulties in raising sufficient local capital for high risk agricultural enterprises. To illustrate how the LAAD program will complement CABEI's efforts follows:

CABEI, as a matter of policy, limits a loan to a single enterprise to 60% of its total debt and equity. LAAD will assist in supplying a part of the remaining 40%, perhaps 15%, with the remaining 25% coming from local shareholders of the borrowing enterprise. If LAAD's 15% is in the form of a convertible debenture (quasi-equity), which is financed with AID funds, it would receive revenue in the form of interest payments on the debenture until such time that it could be converted into stock and sold to Central American investors. On the other hand, if LAAD's 15% participation is a direct purchase of stock, which is financed with

LAAD's funds, LAAD revenues would come from dividends paid on the stock plus profit derived from its sale at a later date. CABEI is having difficulty in organizing groups of local investors to participate in well studied new enterprises (e.g. the 40%), and frequently it has had to seek foreign participation. LAAD's participation in this development process would speed up the organization of new enterprises, and over the long period keep the ownership of the enterprises within Central American.

The primary function of LAAD, therefore, will be to develop profitable, closely integrated agribusiness enterprises. A secondary feature of the program will be to generate a broad public participation (equity sales) in the projects it develops. This is a costly and difficult task, but one that is essential to the achievement of LAAD's goals.

LAAD is not contemplating the creation of a stock exchange or any other complex, formal device, but rather the relatively simple but indispensably essential preliminaries to formal market mechanisms. In essence, this consists of the promotion and implementation of projects which generate several types of securities which are then offered to the public through underwritings organized by LAAD.

For the present, LAAD's categories of activities with the highest priority are described in Annex IV, and a description of several well studied projects that are eligible for financing are shown in Annex V.

C. Justification

1. Entrepreneurial Approach

LAAD's proposed program will be a long-term investment for its member shareholders. There is no expectation of immediate return on this investment; indeed, there is a certain amount of altruism reflected in the resolution of its shareholders to incorporate in an effort to improve agricultural development in Latin America.

The company's shareholders, in their separate corporate identities, have all had wide experience operating in Latin countries, understandably with profit in mind. The decision of these twelve highly successful corporations to join together in a cooperative effort to unstop the agribusiness bottlenecks in Latin nations is a new departure. LAAD's shareholders present a formidable array of talent in agribusiness with the capacity to assist and finance the multiple components of agribusiness in an integrated manner, and contribute to AID's agricultural program in Central America.

ROCAP does not believe that the LAAD Proposal would in any way duplicate or conflict with on-going or prospective efforts in the agriculture sector by AID, other international lending agencies or local governments at either national or regional levels. On the contrary, given the inherent differences in the concept/techniques of the LAAD Proposals and those of these other institutions, it seems evident that in each instance, efforts contemplated under the LAAD Proposal will complement those of such institutions. In order to be sure that even the remote possibility of conflict or duplication is avoided, close and continuous coordination will be maintained between all efforts instituted under the LAAD program and those of these other institutions.

ROCAP's experience during the past year in a regional effort to expand nontraditional agricultural exports was an impressive demonstration that the concept and techniques advocated by LAAD are sound and practical. The ROCAP-supported program dealt with but one aspect of a complicated and broad export field. It included commercial-scale operations in three CACM countries; approximately 6.6 million pounds of fresh fruits and vegetables, having a wholesale value of about \$1 million, were exported to the U.S. winter markets. The success of these efforts were, in large measure, due to the integration of (a) all components of the entire seed-to-consumer process for each commodity (production, harvesting, processing, storage, refrigeration, packaging, transportation and marketing), and (b) timely and adequate technical/management assistance at each and every step of the complex and difficult process. Both these proven concepts and the techniques are a part of the LAAD proposal. ROCAP is partially supporting an Export Board composed of four regional institutions (CABEI, ICAITI, INCAE, FEDEPRICA (Private Sector)). This Board will identify new export potentials and follow them through the successful completion. Many of these will be in the agro-business field. Linkage will be made between LAAD and the Board. Conversely the Board efforts will be supported by LAAD's know-how and funding flexibility.

LAAD's is an entrepreneurial approach which the existing Central American development banking system does not practice, nor should a banking system in fact undertake to do so. LAAD proposes to act in coordination with the development banks, however, with the end that these banks will help finance projects when they mature. (See 0-2 below)

In order to properly achieve its purposes, LAAD must be investor and underwriter. The principal component of project planning is that of structuring ownership participation. This will include placement of shares of subprojects with corporate entities and individuals who can make substantial contributions to enterprises. Broad public placements will also be made. This latter market is a potentially meaningful and largely undeveloped source of funds. The capacity of Central Americans to purchase sound securities substantially exceeds the supply of such securities. This is partially because of a preference on the part of traditional entrepreneurs to offer new issues only within tightly stratified groups. It is also partly because not even the most rudimentary techniques and mechanisms are available in Central America to facilitate a capital market. The problem has frequently been compounded by efforts to apply techniques and mechanisms which are far too complex for the region to absorb.

No nation or region can develop as a free economy without calling upon the savings of its citizens; and conversely, savings are best promoted by providing a profitable and secure place to invest. The Common Market itself will be furthered considerably when investment funds flow freely across regional frontiers. It is, in fact, difficult to conceive of a successful Common Market without such a free flow of investment funds. A principal obstacle to this flow is neither legal nor political, but the absence of the most rudimentary mechanisms to effect this distribution.

LAAD proposes to form and to participate in underwriting syndicates with development institutions and commercial banks. Initially most of these will be "best efforts" arrangements as Central America institutions do not adapt rapidly

to firm underwritings because of the more substantial commitment involved. The AID loan will provide LAAD an immediate means to accommodate projects which require firm underwriting commitments. A large portion of the loan will be used to finance convertible debentures (quasi-equity). (See Section II.A.1.) In practice these will be loans subordinated to those made by development banks such as CABEI to high priority agribusiness projects which meet rigid standards respecting commercial soundness. In the case of CABEI, as mentioned above, LAAD's subordinated loans can be treated as equity in terms of the institution's 40/60 equity-to-debt formula. This form of financing will help speed up the realization of sub-projects of mutual interest to CABEI and LAAD. LAAD will also be able to hold debentures withholding the exercise of the convertibility feature until the companies they represent have become sufficiently profitable to permit the shares to be marketable in Central America. Even in the latter case, it will normally be necessary to feed shares into the market slowly, in accordance with its absorptive capacity.

2. Relationship to Existing Central American Institutions

LAAD's objectives are consistent with those of CABEI and other Central American development institutions. It will perform in a complementary rather than supplementary manner. The LAAD program is known to CABEI officials who endorse it strongly, have taken the initiative, and are already working with LAAD in developing projects. INFONAC, the public development bank in Nicaragua is also working closely with LAAD.

CABEI as a development bank and a public institution can perform only a limited role as an entrepreneur. It cannot contribute active, participating leadership in the identification, implementation, and operation of projects. Its

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promotional activities consist of efforts to cause others to perform this function. LAAD will identify and develop projects. It will provide them risk capital and stand ready to mobilize the balance of financing required.

LAAD will fill a gap in Central America's system of development financing both in terms of its mode of operation and the nature of its portfolio. This system is composed of banking institutions. CABEI, unlike commercial banks, emphasizes potential economic benefits as a criterion governing its approval of projects. The five private financieras are considerably more versatile than the region's commercial banks with respect to the composition of their portfolios. These institutions are, nevertheless, banks. They are not and probably should not be otherwise. The region's development banking system is not equity-oriented. The financieras which have attempted to provide equity financing have not been able to successfully develop and manage this type of portfolio, and have decided not to provide such financing in the future. It is a specialized activity only vaguely related to banking.

As requested by CABEI during negotiations for A.I.D.'s \$30 million loan (O10), the Bank was authorized to use up to \$2.5 million of the loan for equity financing if so desired. Under A.I.D.'s earlier \$10 million loan (004) for industrial relending up to \$2.5 million was also made available for equity financing, but was not used for this purpose either. As a profit making organization, CABEI is reluctant to tie up its resources in equities which may produce little or no income. If it did participate in equity financing it would, as a public institution, be inhibited in performing effectively. It would either be represented on Board of Directors, finding itself in the anachronistic role of a public bank participating in the competitive activities of private companies, or relinquish Board representation leaving its investment unprotected. Relinquishing this right would be contrary to the dictates of business prudence.

CABEI will find that divesting its portfolio will be a problem. Large blocks of stock which could not find a market when first issued will not be significantly more marketable when the projects they represent become operative. The absence of appropriate mechanisms for the placement of securities is a problem CABEI cannot solve directly. It can provide substantial support, however, to the efforts of LAAD and others to establish such mechanisms.

INFONAC is the Central American public development institution with by far the largest equity portfolio. It has a substantial amount of money tied up in the capital of large projects with a slow pay-out. It cannot market these shares. It will not be able to participate in further equity in the foreseeable future. INFONAC was compelled to participate in equity in order to provide for the implementation of projects it has developed. INFONAC is especially aware of the need for private entrepreneurial entities to which it can pass on projects at the proper state of their development.

Effective institutions like INFONAC and CABEI require the cooperation and support of private, independent and entrepreneurial investment institutions. Conversely, a properly functioning private institution in Central America cannot function independently of these public entities. The latter have the resources and staff to develop ideas. LAAD's compatibility with these institutions lies largely in its ability to structure and implement, freeing the public entity to assume the role of development banker.

The private financieras in Central America do not perform the role proposed for LAAD. Their reasons for not doing so differ from the case of public entities. The financieras, like their public counterparts, are banking institutions.

Unlike the public banks, they rarely contribute to the innovation of projects. They do make an essential contribution to the region's development banking system, however. They deal with a broader variety of activities than do the commercial banks, and are more inclined to assist in the creation of new enterprises and expansion of existing ones than are the commercial banks. The latter limit themselves almost entirely to routine financing requirements. The financieras still perform these functions as bankers, taking opportunities as they present themselves. The existing developing banking system, because it is a banking system, is largely passive. LAAD, though it performs a banking function, is not a bank. It is an investor and an entrepreneur. It is active rather than passive. The distinction is fundamental and is demonstrated by the relationship LAAD has already established with the region's development banking system.

In summary, LAAD's effectiveness in Central America is feasible because of the existence of an established system of public and private development banks. An effectively operating system is essential to LAAD's success and LAAD can, in turn, contribute substantially to the effectiveness of this system by providing it the next logical step in the rational development of private enterprise in the region.

D. Place of Project in Program

The proposed loan is ROCAP's fourth private sector industrial loan. The three previous loans were extended to CABEI. Two of these (Loans 001 and 002) totalling \$15 million were fully disbursed in January of this year. The industries financed were largely manufacturing enterprises oriented toward the domestic market. Little attention was given to agriculture or exports until June 1970. At that time AID approved its fourth ROCAP private sector loan program, a \$30 million loan to CABEI for

financing primarily nontraditional agriculture export industries. This loan was signed in September 1970 and conditions precedent were met the following December. Performance to date has been excellent. CABEI has approved over twenty projects totalling about \$10 million. ROCAP has issued letters of commitment for \$10 million and is presently processing disbursement requests close to \$500,000.

On the technical assistance side, ROCAP's involvement in agriculture and exports has a longer history. ROCAP has assisted SIECA in its efforts to implement the Limon Protocol Action Plan (basic grains), assisted in the development of a regional export promotion group (now called PROMECA), encouraged INCAE to develop an agribusiness program, assisted ICAITI to develop a technical capacity in agriculture-export systems, provided marketing assistance to selected agriculture export pilot programs, and assisted IICA to coordinate agriculture research throughout the region.

To a large extent, LAAD will complement these activities by working toward the achievement of the same objectives. Thus, for example, LAAD will encourage the use of a systems approach to increasing agricultural exports and the introduction of advanced technical and managerial techniques into the agricultural sector. The unique features of LAAD are its use of funds to take a quasi-equity position and its willingness to call upon its reserves of technical, managerial, and entrepreneurial know-how to provide continuing assistance to the projects in which it participates. Particularly important is LAAD's ability to augment and develop in Central America the present inadequate supply of entrepreneurial capacity, a scarce factor now limiting the development and growth of private enterprise in the region. CABEI has already recognized the complementarity of these LAAD's activities with its own operations and has encouraged close cooperation between the two entities.

III. ECONOMIC ANALYSIS

A. Relation to Central American Development Needs

The economic development of the Central American countries was stimulated in the decade of the 60's by the formation of the Central American Common Market (CACM). Not only did trade among the member countries expand dramatically at an annual rate in excess of 30%, but additional investment in the industrial sector was encouraged by the more favorable market opportunities. Two recently completed studies, financed by ROCAP have demonstrated that the CACM has had significant and measurable effects on the growth of income in the region. These studies have also confirmed in a more precise way ROCAP's own analysis of the priority economic development needs of the region. They have shown that the CACM has resulted in net trade creation rather than trade diversion, that import substitution has taken place on a regional rather than national basis, and that import substitution industries generally evidence productivity gains.

On the other hand, these studies indicate that the commodity concentration of imports has increased, and that prospects for further substitution of consumer goods are limited. They also show that the import coefficient for the region has risen.

These analytical results have clear policy implications. The commodity concentration of imports and the reduced opportunities for further import substitution obviously mean that export instability will have increasingly serious consequences for steady growth of output. Thus the importance of export expansion and diversification is reemphasized. At the same time the fact that import substitution has been associated with increasing productivity suggests that Central American industries may achieve a level of

efficiency, which permits at least some of them to compete in world markets.

Based on the evidence that the expansion of intraregional trade has involved a significant increase in the exchange of raw materials and intermediate products in the CACM, there is a strong presumption that opportunities for further import substitution may be found in the production of such commodities. Moreover, an industrial development policy which consciously seeks to create forward and backward linkages to the established industrial base promises to create economies for existing industries, thereby lowering their production costs. At the same time such a process of increasing industrial interdependence will help to promote greater economic integration in the region.

Almost equal importance is attached to the need to increase the productivity of the agricultural sector, to increase the employment and income of the rural agricultural labor force, and to achieve greater integration between the agricultural and industrial sectors. The member countries of the CACM are still predominantly agricultural so that increasing the productivity of the sector is important not only for increasing internal demand for the products of the industrial sector and creating additional employment opportunities in trade and service industries. It is also important for a more equitable distribution of income, abating social discontent, and contributing to political stability.

Experience has demonstrated that increasing the productivity of the agricultural sector in developing countries is an extremely complex and difficult task. However, experience also seems to be demonstrating that a systems approach on a commodity basis offers one of the most promising development strategies. It is coming to be more widely recognized in Central America, partly as a consequence of

several AID/ROCAP pilot projects that, particularly in the matter of increasing and expanding agricultural exports, it is necessary to identify specific products and specific markets. Furthermore, to produce a commodity with the required quality characteristics at a cost which permits delivery in the foreign market in acceptable condition at the right time, one must assure that every element of the system from production to marketing, must be planned and provided. There is also increasing awareness that attention must also be paid to the question of domestic sale or disposal of the unexportable portion of the output.

ROCAP's analysis and experience have shown that a number of agricultural products for which potential foreign markets exist are not at present economically exportable because of various deficiencies in the marketing system for that product. In some cases it may be lack of storage facilities, in others refrigerating or freezing capacity, in others transport. There has been some tendency to believe that the existence of a bottleneck of this kind would represent a potentially profitable investment opportunity. There has also been some tendency for existing financial institutions to analyze a situation of this kind without adequate reference to the other elements of the production and marketing system. Thus there is a likelihood that investments at certain stages of the system which do not appear to be profitable might become profitable in the context of an integrated system.

This kind of development approach is not one which is likely to be carried out fully and effectively by public sector institutions. It is rather one which requires private initiative, entrepreneurial activity, and the risks of the innovator. It also requires specialized technical skills and knowledge of the product and its system and it requires risk capital.

In this context the proposed program of LAAD in Central America appears to be well related to the highest priority development needs of the region. It will focus heavily on products with high export potential. At the present time, as studies of CABEI/PROMECA have indicated, such products are predominantly agricultural or agriculture-related. LAAD also proposes to adopt a systems approach to the production and marketing of these products. Its intent is not only to improve the export marketing system but the domestic marketing system as well.

The distinguishing feature of the LAAD approach is that it will seek out and stimulate private sector investment in the selected activities. LAAD will thus be performing the kind of entrepreneurial function which many students of the development problem regard as the key catalytic element of the process. In addition to providing managerial and technical know-how to Central American investors, LAAD will also be acting in the capacity of a private investment banker. Thus in addition to its other services LAAD will be helping the Central American companies with which it proposes to operate to achieve sound financial structures and will itself provide a portion of the risk capital which is often the main obstacle to expanding a business or launching a new one.

Because of these distinguishing features the proposed LAAD program is in no sense a duplication of the functions of CABEI or of the national financieras. Rather LAAD's program will compliment and harmonize with those of the other institutions and it can be expected that LAAD and the development banks will often cooperate closely in financing specific activities, the one providing essentially secured debt financing, and the other providing subordinated debt and equity financing.

In the process of financing these activities LAAD will be generating securities and thereby contributing to another important aspect of Central American development and regional integration. One of the problems of creating a capital market in Central America is the limited availability and circulation of good corporate securities. LAAD's operations will result in the issuance of securities by the companies which it finances. LAAD will hold some of these securities and will attempt to place others in the hands of Central American investors. As projects come on line and as their operations become profitable, LAAD proposes to offer for sale in Central America securities which it holds in the project.

B. Balance of Payment Effect

It is not possible at this time to make meaningful quantitative estimates of the balance of payments effect of the proposed project. In the first two or three years of the program the balance of payments effect will depend almost exclusively on the rate of utilization of the AID loan and on the proportion of foreign exchange and local currency expenditures. Even if 67% of the loan is converted to local currency, the local currency expenditure, would, be relatively small and for the most part spent on production and employment increasing activities. Hence the internal inflationary effect should be minimal. The conversion of dollars to local currency may initially result in a slight increase in international reserves for the country where conversion takes place but this effect is likely to be only temporary in view of Central America's increasing import requirements.

Over the longer term the project should have the effect of increasing exports without generating a corresponding increase in imports and

remittances. Assuming that the proceeds of the AID loan will be turned over several times and continue to generate additional exports, repayments of interest and principal should not, of itself, create or aggravate future balance of payments problems.

C. Impact on the U.S. Economy

Once again it is not possible to make reliable quantitative estimates of the effect of the project on the U.S. economy. In any case, the marginal impact would be small. If the foreign exchange portion of the AID loan is \$2.0 million (33%) this amount would be spent largely on capital goods such as refrigeration and transport equipment, machinery of various specialized types, and some chemicals and raw materials. Of the dollars converted to local currency about 50% would be spent for imports from the U.S. since it is the major supplier of Central American imports. Secondary effects of the project should include an increased demand for U.S. replacement equipment and parts.

Of the additional exports generated by the program probably about half would be sold in the U.S. market. It is expected that in such cases the products developed for export to the U.S. will have been selected on the basis of inadequate U.S. domestic supplies so that the additional exports to the U.S. will not cause dislocation or harmful competition to U.S. producers.

D. Other Economic Benefits

Since the LAAD program is oriented toward agribusiness it is likely that the subprojects financed will tend to be relatively labor intensive. Moreover, the location of such activities will be largely outside the urban areas. These employment effects are important for social and political reasons as well as economic.

Another important development effect is the stimulation of private enterprise and eventually a diversification of business ownership. Similarly, the project can result in the fortification and expansion of institutionalized financial mechanisms such as the private investment bank and the capital market.

E. Economic Soundness of Project

In the nature of the case, the project involves many elements of uncertainty and hence correspondingly higher levels of risk than in the case where a loan guarantee is available or where an institution has an established history of successful performance. LAAD itself is a new venture with no performance record. However, it is clearly in the long term interests of the companies who own LAAD to stimulate the development of Central America and thereby expand the market for the products of the stockholder companies. Moreover, since LAAD will have an ownership interest in the Central American companies which it assists, LAAD can be expected to do everything possible to see that the sub-projects become profitable operations since this is the sine qua non not only of being able to repay the AID loan but also of earning a return on LAAD's own capital. Since the sectors in which LAAD has chosen to work are those where profitable investment opportunities appear to exist the project seems to have very favorable prospects for success.

IV. FINANCIAL ANALYSIS

A. Capital Structure

LAAD has an authorized capital of \$15 million. Present paid-in capital is \$2.4 million. The par value and original issue price of LAAD's shares of common stock is \$5,000 (480 shares issued and outstanding). Each share is entitled to one vote. LAAD has decided that the holdings of each share-owner will be equal and that the subscription of each share-owner will be \$200,000 (forty shares), which will entitle the share-owner to elect a Director. Initially, there will be approximately twenty-five share-owners meeting the requisites of a stockholder described herein.

LAAD was incorporated January 26, 1970. Its two audited financial statements for the periods October 31, 1970, and March 31, 1971, are shown in Annex III, Exhibits A and B. A review of these statements shows that LAAD has not yet made any agribusiness investments, but by placing its capital funds in short-term commercial paper, it has covered its pre-organization expenses and operating expenses since inception and has earned a total net profit of \$176,000, which has all been credited to retained earnings.

Annex III, Exhibits C and D, shows projected balance sheets and profit and loss statements for five-year period, 1971 through 1975, and a source and application of funds statement for four-year period, 1971 through 1974.

LAAD's contribution to the program consists of \$2 million from its capital which will be used to make equity and loan investments in agribusiness enterprises. In addition, it will provide its Guatemala office with sufficient funds to cover initial overhead expenses until such time that it becomes self-sufficient. Depending on staffing requirements, this will take about three or four years to achieve.

B. Subsidiary

At a recent meeting at ROCAP, LAAD proposed to establish a Central American subsidiary, to be chartered in Panama also, which will be created solely to conduct LAAD's agribusiness activities in the five-member countries of the Central American Common Market (CACM) and which will be open to Central American equity participation.

While it is too early to say precisely what form legally the subsidiary will take, LAAD will probably establish an affiliated corporation. The management and shareholders will, of course, remain the same. The corporation will be capitalized for three to four million dollars, and as LAAD approves Central America investments and loans, it will transfer (pay-in) over the two-year commitment period of the AID loan a like amount to the new corporation's capital until such time that LAAD's contribution of \$2 million has been fully paid-in. In this way, the parent company will not have to transfer at one time 80% of its present capital to establish the subsidiary.

AID funds would be disbursed through the parent (borrower) to the Central American subsidiary to the ultimate user. Since the subsidiary would have an authorized capital of one to two million dollars in excess of the \$2 million paid-in, LAAD would then -- and it plans to do so -- offer its shares for sale to Central Americans (See Section I-A-1). These shares would be denominated at a much lower par value than the parent company's common stock in order to facilitate sales in Central America.

ROCAP strongly endorses LAAD's willingness to form a separate entity for Central America. It is felt from a public relations point of view that this will facilitate LAAD's activities in Central America, and will give the Central Americans the opportunity to participate in the ownership of the company. ROCAP

recommends, therefore, that LAAD submit its subsidiary plans (including charters, by-laws, policies, sales of its equities) to AID as a condition precedent to initial disbursement.

C. Analysis

An analysis of the five-year consolidated projections (broken down into Central America and other countries), and the assumption that LAAD used in preparing them, reveals the following:

1. Direct equity investments in Central America will increase from \$300,000 in 1971 (December) to \$1.1 million by 1975 (December). This is entirely LAAD funds.

2. Term loans, mostly subordinated (AID funds and LAAD funds), will increase from \$1.5 million in 1971 to \$7.7 million by 1975. (The AID loan will have been fully disbursed the year before).

3. Capital stock will have increased from \$2.4 million (1970 - see above) to \$4.8 million (1975), or by \$2.4 million. The estimated increase is to be obtained from other U.S. and foreign corporations (see Section I-A). The capital increase will be required if LAAD is to serve other regions of Latin America inasmuch as its present capital is 80% committed to Central America. An indirect but tangible effect of the AID loan can already be seen as a lever in mobilizing additional funds for investing in Latin America.

4. Overall net profit (after deduction 2% bad debt reserve), increases from \$8,000 in 1971 to \$111,000 in 1975, amounting to only a 2.2% return on net worth for the latter year. It is interesting to note that in 1970 LAAD generated earnings of \$150,000 or a 6.2% return merely by investing its capital in short-term commercial paper. After five years of operations its return decreases to a 2.2% return, which gives support to the fact that LAAD was created for reasons other than just making a profit. To follow this further, LAAD

projected its percentage return of capital over a ten-year period (see Annex III, Exhibit E) which shows that in 1980, after ten years of operations, its return is 6.3%, about equal to its earnings in 1970, when its funds were invested in commercial paper.

5. During the above ten-year period no dividends to LAAD shareholders are projected. Its earnings over this period are all retained for making further investments in Latin America and for setting aside reserves to amortize the AID loan and other borrowings. Repayment of principal of the AID loan commences in 1976 (\$400,000 per year).

6. LAAD projections show no dividend income from its equity investments in Central America enterprises during the first five years. Beginning with the sixth year dividend income in Central America commences and is estimated at \$18,000 for 1976. (An estimated dividend return of 6% is projected on its equity investments.)

D. Interest Spread

Loan terms of 20 years with a 5 year grace period at an interest rate of 3% are recommended. This will give LAAD a spread of 6% on the use of AID funds. The spread is required to generate a reasonable profit and to achieve LAAD's program objectives. It can be justified for the following reasons:

1. To give LAAD the leverage to pioneer a new area of equity financing and to develop costly and high risk agribusiness investments.

2. To permit LAAD to finance high risk activity and still charge its sub-borrowers a reasonable rate of interest (average 9%) and at the same time to set aside a 2% reserve for bad debts.

3. To cover the administrative costs of setting up a new regional office in Guatemala City and to provide over a period of time the technical but expensive expertise that will be required permanently to implement its program.

4. To assist in financing the techniques for developing a capital market - to broaden local share participation - not only insofar as the projects that LAAD finances are concerned, but other enterprises as well, and to give LAAD encouragement to take the leadership in Central America in this phase of the program.

5. Even with a 6% spread, LAAD's profits are estimated to be only moderate. Net earnings for its fifth year of operations (1975) are figured to reach \$111,000 or 2.2% of its total capital (\$4.8 million). This is enough to begin amortizing the AID Loan, which will begin in 1976, but not enough to pay a dividend. (See paragraph E-2 below.)

E. Repayment Prospects

1. Conversion to Dollars

LAAD requires all sub-loans to be denominated in U.S. dollars and its sub-loan agreements contain the requirement, as a condition to disbursement, that the borrower shall, as applicable, register his loan as a dollar obligation with the local exchange control authority. The sub-loan agreement will also provide that LAAD shall have the right to disburse local currencies and that repayment of such amounts may be made in the same currency equivalent of his dollar obligation at the then prevailing rate of exchange. These provisions of the sub-loan agreement are designed to protect LAAD (and AID) against losses arising from fluctuating exchange rates, and to maintain the value of the local currency to the U.S. dollar.

Where AID dollars are to be used for local cost disbursements, now that the SLC mechanism has been abandoned, the local currency will be purchased by the USDO (or RDO).

In instances where AID dollars are disbursed in payment for goods or services of U.S. origin (or other foreign exchange costs), such disbursements are registered by the borrower with the local exchange authority as a dollar obligation which must, of course, be repaid to LAAD in dollars, the borrower being obliged to provide the necessary amount of local currency to purchase the required dollars.

2. Conclusions

The projected source and application of funds - in summary form - is shown for the four year disbursement period (1971 through 1974) on the following page. (See Annex III, Exhibit D for detailed projections.) This is broken down into local currency costs and U.S. dollar costs and supports LAAD's need for using up to \$4 million for financing local costs. (See summary and Recommendations, Issue No. 1).

LAAD's financial projections, (while only estimates) are well prepared, and show conservative debt to equity ratios, reasonable working capital levels, adequate reserves for bad debt, moderate earnings and no dividend payments to LAAD stockholders. It is recommended, however, that LAAD submit its plan for setting aside adequate reserves to amortize the AID loan and there be restrictions on the payment of dividends particularly during the grace period. (See Summary and Recommendations - Conditions B-1(e) and 2(c) and Section I A 2).

Earnings while moderate, appear adequate to service the AID loan without difficulty and are in great measure attributable to the six per cent spread on the AID loan (see paragraph C above). Regardless of the

UNCLASSIFIED

LAAD PROJECTIONS

December 31, 1971 to December 31, 1974

SOURCE AND APPLICATION OF FUNDS
LOCAL CURRENCY* AND U.S.DOLLARS
(in thousands U.S.\$)

	<u>Local Currency*</u>	<u>U.S. Dollars</u>	<u>Total Amount</u>	<u>% of Total</u>
Opening Cash Balance	-	281	281	1.6
<u>SOURCES</u>				
Net Profit	-	125	125	0.7
Amortization of Organization Expenses	-	29	29	0.2
Provision for Losses on Investments/ Loans	-	515	515	2.8
Other	-	28	28	0.2
Sub-Total	<u>-</u>	<u>697</u>	<u>697</u>	<u>3.9</u>
Increases in Short Term Borrowings	-	8,605	8,605	47.8
AID Loan Drawdown	4,000	2,000	6,000	33.4
Capital Stock Increases	<u>-</u>	<u>2,400</u>	<u>2,400</u>	<u>13.3</u>
TOTAL SOURCES	<u>4,000</u>	<u>13,702</u>	<u>17,702</u>	<u>98.1</u>
Total Availability	<u>4,000</u>	<u>13,983</u>	<u>17,983</u>	<u>100.0</u>
Less:				
<u>APPLICATIONS</u>				
Increase/(Decrease) Short Term Investments	-	7,018	7,018	39.0
Equity Investments-From LAAD Funds:				
Central America	1,000	-	1,000 ^{1/}	5.0
Other Countries	-	800	800	4.4
Term Loans:				
Central America-From LAAD Funds	1,000	-	1,000 ^{1/}	6.1
Central America-From AID Funds	4,000	2,000	6,000 ^{2/}	33.4
Other Countries	-	1,800	1,800	10.0
Other	<u>-</u>	<u>4</u>	<u>4</u>	<u>0.1</u>
TOTAL APPLICATIONS	<u>6,000</u>	<u>11,622</u>	<u>17,622</u>	<u>98.0</u>
Closing Cash Balance	<u>(2,000)</u>	<u>2,361</u>	<u>361</u>	<u>2.0</u>

* CACM Countries.

^{1/} LAAD Contribution

^{2/} AID Loan

spread, which should give LAAD the financial confidence to begin its program in Central America, the true test of the LAAD program (and AID's security) lies in the ability and good faith of LAAD and its borrowers, and in the quality of the projects that it finances. LAAD's concept is innovative and while it has no experience to date it has an unusual incentive and opportunity of putting its concepts to test. To this end, it has the managerial talent and a technical reservoir at its command to make a major contribution to agribusiness development in Central America.

ROCAP concludes, therefore, LAAD will maintain a quality program, and further that the repayment prospects of this loan are excellent.

V. LOAN ADMINISTRATION

A. Covenants

Further to the conditions mentioned in the Summary and Recommendations and the Section on Collateral (Section II-A-2), ROCAP recommends that the Loan Agreement contain the following covenant:

Negative Pledge Agreement (wording supplied by LAAD see Section II-A-2): "So long as LAAD shall owe any amounts to AID hereunder, LAAD shall not, without prior written consent of AID, mortgage, pledge, otherwise hypothecate or encumber any of its assets or properties (promissory notes, acceptances, accounts receivable, contractual rights, shares, securities, any collateral, etc.) obtained through, or evidencing, financings made by LAAD with funds obtained from AID hereunder; provided, however, that, at the request of AID, LAAD shall grant security interest in such assets and properties in favor of AID and shall execute any and all documents and shall perform any and all acts required by AID necessary to create, perfect and preserve such valid security interest in favor of AID; provided, further, that this subparagraph shall not apply to the assets or properties of LAAD, or a pro-rata portion thereof, initially obtained through, or evidencing, financings made by LAAD with funds obtained from AID hereunder, if and when such funds, or a pro-rata portion thereof, have been repaid to AID, to the extent of such payment; and provided, finally, that should the situation stated in the second provision of this subparagraph occur after the security interest in the respective asset or property, or any part thereof, has been granted, then, at the request of LAAD, AID shall do whatever is necessary to cancel such security interest."

B. Implementation Plan

1. Authorization of Loan: June 15, 1971
2. Presentation draft Loan Agreement to LAAD: July 15, 1971.

3. Negotiation and signing of Loan Agreement: August 1, 1971.

4. Terminal date for meeting Conditions Precedent to initial disbursement (90 days after authorization): September 15, 1971.

5.

	<u>AID Loan Drawdown</u>	<u>LAAD Capital Equity</u>	<u>Drawdown Loan</u>	<u>Total Program</u>
1971	\$1.0	\$.3	\$.4	\$1.7
1972	2.0	.3		2.3
1973	1.5	.2	.3	2.0
1974	<u>1.5</u>	<u>.2</u>	<u>.3</u>	<u>2.0</u>
	<u>\$6.0</u>	<u>\$1.0</u>	<u>\$1.0</u>	<u>\$8.0</u>

6. Terminal date for final disbursement: September 15, 1974 (three years after meeting condition precedent).

AID Loan funds will be disbursed through letters of commitment to cover foreign exchange costs of approved sub-loans, and through local currency purchases by the USDO (or RDO) to cover local costs. LAAD will provide monthly loan summaries, quarterly progress reports and annual financial statements.

As the above figures show, LAAD proposes to commit the AID Loan in two years and have it fully drawn down over a three year period (see Financial Projections Annex III).

LAAD's speed and efficiency in assisting ROCAP with the preparation of this paper bodes well for the success of this program.

In view of the above and the fact that LAAD already has a good number of analyzed projects ROCAP believes that the implementation of this loan should not pose any problems.

May 28, 1971

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CHECKLIST OF STATUTORY CRITERIA

(Alliance for Progress)

In the right-hand margin, for each item write answer or, as appropriate, a summary of required discussion. As necessary, reference the section(s) of the Capital Assistance Paper, or other clearly identified and available document, in which the matter is further discussed. This form may be made a part of the Capital Assistance Paper.

The following abbreviations are used:

FAA - Foreign Assistance Act of 1961, as amended.

App. - Foreign Assistance and Related Agencies Appropriations Act, 1971.

MMA - Merchant Marine Act of 1936, as amended

COUNTRY PERFORMANCE

Progress Towards Country Goals

1. FAA § 208; §.251(b).

A. Describe extent to which country is:

(1) Making appropriate efforts to increase food production and improve means for food storage and distribution.

The C.A. countries are making increased and appropriate efforts in this area through agriculture projects which will help increase food production and means for storage and distribution.

(2) Creating a favorable climate for foreign and domestic private enterprise and investment.

Through the CACM and other means the C.A. countries are making positive efforts to create a favorable climate for private investment both on a national and regional basis.

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(3) Increasing the public's role in the developmental process.

The C.A. countries have been working individually and through the CACM to increase the public's role in the development process.

(4) (a) Allocating available budgetary resources to development.

The C.A. countries have been allocating considerable available budgetary resources to both national and regional development.

(b) Diverting such resources for unnecessary military expenditure (see also Item No. 16) and intervention in affairs of other free and independent nations. (See also Item No. 14.)

No C.A. country is diverting resources for unnecessary military expenditures, nor is any C.A. country intervening in other countries' affairs.

(5) Willing to contribute funds to the project or program.

LAAD will make a substantial contribution of funds to the project.

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- (6) *Making economic, social, and political reforms such as tax collection improvements and changes in land tenure arrangements, and making progress toward respect for the rule of law, freedom of expression and of the press, and recognizing the importance of individual freedom, initiative, and private enterprise.*
- (6) All C.A. countries are making progress toward respect for the rule of law, freedom of expression and of the press, and recognition of the importance of individual freedom, initiative, and private enterprise as is witnessed by the absence of press and other censorship and the encouragement of initiative and private enterprise in agriculture, industry and housing. Some progress is being made in political reforms such as tax collection improvements and land tenure arrangements.
- (7) *Adhering to the principles of the Act of Bogota and Charter of Punta del Este.*
- (7) The C.A. countries have been adhering to the principles of the Act of Bogota and the Charter of Punta del Este. Furtherance of the CACM is in accordance with the goals therein stated.
- (8) *Attempting to repatriate capital invested in other countries by its own citizens.*
- (8) A major purpose of C.A. integration is to make the Common Market more attractive to Central American capital. The establishment of a successful agribusiness investment company should aid in the return to Central America of Capital invested elsewhere.
- (9) *Otherwise responding to the vital economic, political, and social concerns of its people, and demonstrating a clear determination to take effective self-help measures.*
- (9) C.A. integration is an effective response to the vital economic, political and social concerns of the people in the region and to its problems of development; and this loan in particular will provide opportunities for self-help.
- B. *Are above factors taken into account in the furnishing of the subject assistance?*

Treatment of U.S. Citizens

2. FAA § 620(c). *If assistance is to government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) debt is not denied or contested by such government?*

3. FAA § 620(a)(1). *If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing-ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?*

There is no evidence of any such debt owed to a U.S. citizen by a C.A. government.

There is no evidence that any such action has been taken by any C.A. governments or their agencies.

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4. FAA § 620(o); Fishermen's Protective Act. 8.5. *If country has seized, or imposed any penalty or sanction against, any U.S. fishing vessel on account of its fishing activities in international waters,*
- No C.A. country has taken any such action.
- a. *has any deduction required by Fishermen's Protective Act been made?* N/A.
- b. *has complete denial of assistance been considered by A.I.D. Administrator?* N.A.

Relations with U.S. Government and Other Nations

5. FAA § 620(d). *If assistance is for any productive enterprise which will compete in the U.S. with U.S. enterprise, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan?*
- This assistance is not for a productive enterprise. However, if a problem arises with respect to any proposed sub-project, it will be dealt with in accordance with policies in effect at this time.
6. FAA § 620(j). *Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction by mob action, of U.S. property?*
- No Central American country has permitted such action.

7. FAA § 620(l). *If the country has failed to institute the investment guaranty program for the specific risks of expropriation, in convertibility or confiscation, has the A.I.D. administration within the past year considered denying assistance to such government for this reason?*
- All Central American countries have signed investment guaranty agreements with the U.S. and have instituted the program.
8. FAA § 620(q). *Is the government of the recipient country in default on interest or principal of any A.I.D. loan to the country?*
- No Central American country is in default for payments due under any A.I.D. loan.
9. FAA § 620(t). *Has the country severed diplomatic relations with U.S.? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?*
- No Central American country has severed diplomatic relations with the U.S.
10. FAA § 620(u). *What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearage taken into account by the A.I.D. Administrator in determining the current A.I.D. Operating Year Budget?*
- All Central American countries are current in their U.N. obligations
11. FAA § 620(a). *Does recipient country furnish assistance to Cuba or fail to take appropriate steps to prevent ships or aircraft under its flag from carrying cargoes to or from Cuba?*
- No Central American country trades with or assists Cuba in any way nor permits ships or aircrafts under its flag to carry cargoes to or from Cuba.

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12. FAA § 620(b). If assistance is to a government, has the Secretary of State determined that it is not controlled by the international Communist movement? The Secretary of State has determined that each Central American country is not controlled by the international Communist movement.
13. FAA § 620(f). Is recipient country a Communist country? No Central American country has a Communist Government.
14. FAA § 620(i). Is recipient country in any way involved in (a) subversion of, or military aggression against, the U.S. or any country receiving U.S. assistance, or (b) the planning of such subversion or aggression? No Central American country is involved in or is planning such subversion or aggression.
15. FAA § 620(n). Does recipient country furnish goods to North Viet-Nam or permit ships or aircraft under its flag to carry cargoes to or from North Viet-Nam? No Central American country furnishes goods, or permits ships or aircrafts under its flag to carry goods, to North Vietnam.

Military Expenditures

16. FAA § 620(s). What percentage of country budget is for military expenditures? How much of foreign exchange resources spent on military equipment? How much spent for the purchase of sophisticated weapons systems? (Consideration of these points to be coordinated with PPC/MAS.) No Central American country spends an excess amount of its country's budget or foreign exchange reserves for military equipment. No Central American country has purchased sophisticated weapon systems.

CONDITIONS OF THE LOANGeneral Soundness

17. FAA § 201(d). *Information and conclusion on reasonableness and legality (under laws of country and U.S.) of lending and relending terms of the loan.*

The proposed terms and conditions of the loan are legal under Central American and U.S. laws and reasonable for Central America at the time.

18. FAA § 251(b)(2); §.251(e). *Information and conclusion on activity's economic and technical soundness. If loan is not made pursuant to a multilateral plan, and the amount of the loan exceeds \$100,000, has country submitted to A.I.D. an application for such funds together with assurances to indicate that funds will be used in an economically and technically sound manner?*

The proposed project appears to be both economically and technically sound, and there are strong assurances that the funds will be used in sound manner.

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19. FAA § 251(b). *Information and conclusion on capacity of the country to repay the loan, including reasonableness of repayment prospects.* Financial projections relevant market studies, and LAAD operating principles indicable that the project will be financially successful and that LAAD will be in an excellent position to repay the loan.
20. FAA § 611(a)(1). *Prior to signing of loan will there be (a) engineering, financial, and other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?* The financial and other plans necessary to carry out the assistance have been obtained together with a reasonably firm estimate of the cost to the U.S. of the assistance.
21. FAA § 611(a)(2). *If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purposes of loan?* No further legislative action will be required within the Central American countries for accomplishment of the purposes of the loan.
22. FAA § 611(e). *If loan is for capital assistance, and all U.S. assistance to project now exceeds \$1 million, has Mission Director certified the country's capability effectively to maintain and utilize the project?* The Mission Director has so certified.
23. FAA § 251(b). *Information and conclusion on availability of financing from other free-world sources, including private sources within the United States.* No other free world financing appears to be available for this project.

Loan's Relationship to Achievement
of Country and Regional Goals

24. FAA § 207; § 251(a). Extent to which assistance reflects appropriate emphasis on; (a) encouraging development of democratic economic, political, and social institutions; (b) self-help in meeting the country's food needs; (c) improving availability of trained manpower in the country; (d) programs designed to meet the country's health needs, or (e) other important areas of economic, political, and social development, including industry; free labor unions, cooperatives, and voluntary agencies; transportation and communication; planning and public administration; urban development; and modernization of existing laws.
- This loan will support and directly encourage import areas of economic, political, and social development, especially agribusiness, non-traditional exports, investment banking and related institutions. Goals (a), (b), (c), and (e) will be emphasized through the projects carried out and the resulting economic development of the region.
25. FAA § 209. Is project susceptible of execution as part of regional project? If so why is project not so executed?
- The project is regional in nature and is being executed and coordinated on a regional basis.
26. FAA § 251(b)(3). Information and conclusion on activity's relationship to, and consistency with, other development activities, and its contribution to realisable long-range objectives.
- The activity is closely related to and consistent with other development activities and will directly contribute to the long-range objectives of the CACM.

AID 1240-2

27. FAA § 251(b)(7). *Information and conclusion on whether or not the activity to be financed will contribute to the achievement of self-sustaining growth.*
- The activity will directly contribute to the achievement of self-sustaining growth for the five countries by building CACM agribusiness and non-traditional export potential and by helping to provide foreign exchange earnings.
28. FAA § 281(a). *Describe extent to which the loan will contribute to the objective of assuring maximum participation in the task of economic development on the part of the people of the country, through the encouragement of democratic, private, and local governmental institutions.*
- The loan will directly contribute to the assuring of maximum participation in the task of economic development through the promotion of greater numbers of agribusiness activities in the private sector and of greater public participation in them.
29. FAA § 281(b). *Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.*
- The program recognizes clearly the particular needs, desires and capacities of the people of the region and indirectly supports and furthers the other goals.

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30. FAA § 601(a). *Information and conclusions whether loan will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.*
- The loan will directly serve to encourage the flow of international trade and aid private initiative, and will indirectly further efforts of the countries to attain the other goals.
31. FAA § 619. *If assistance is for newly independent country; is it furnished through multilateral organizations or plans to the maximum extent appropriate?*
- The assistance is not being furnished to a newly independent country.
32. FAA § 251(h). *Information and conclusion on whether the activity is consistent with the findings and recommendations of the Inter-American Committee for the Alliance for Progress in its annual review of national development activities.*
- The activity is consistent with the findings and recommendations of CIAP.
33. FAA § 251(i). *Information and conclusion on use of loan to assist in promoting the cooperative movement in Latin America.*
- This activity will have direct effect on the cooperative movement in Central America.

AID 1240-2

34. FAA § 209; § 251(b)(8).
Information and conclusion whether assistance will encourage regional development programs, and contribute to the economic and political integration of Latin America.

This assistance will directly encourage regional development programs through increased economic and fiscal stability in the CACM and will thereby also contribute to the economic and political integration in the region.

Loan's Effect on U.S. and A.I.D Program

35. FAA § 251(b)(4); § 102.
Information and conclusion on possible effects of loan on U.S. economy, with special reference to areas of substantial labor surplus, and extent to which U.S. commodities and assistance are furnished in a manner consistent with improving the U.S. balance of payments position.

The loan will have little effect on the U.S. economy; no effect on areas of labor surplus; and will be furnished in a manner as consistent as possible with improving the U.S. balance of payments position.

36. FAA § 601(b). *Information and conclusion on how the loan will encourage U.S. private trade and investment abroad and how it will encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).*

Through improved economic and financial stability in the region the loan will encourage increased U.S. private trade and investment abroad through increased facilities for tourists and businessmen in the area, and the furnishing of goods and services by the U.S. private sector.

37. FAA § 601(d). If a capital project, are engineering and professional services of U.S. firms and their affiliates used to the maximum extent consistent with the national interest?
38. FAA § 602. Information and conclusion whether U.S. small business will participate equitably in the furnishing of goods and services finance by the loan.
39. FAA § 620(h). Will the loan promote or assist the foreign aid projects or activities of the Communist-Bloc countries?
40. FAA § 621. If technical assistance is financed by the loan, information and conclusion whether such assistance will be furnished to the fullest extent practicable as goods and professional and other services from private enterprise on a contract basis. If the facilities of other Federal agencies will be utilized, information and conclusion on whether they are particularly suitable, are not competitive with private enterprise, and can be made available without undue interference with domestic programs.

Any engineering or professional services financed under the loan may be provided by U.S. firms or their affiliates.

U.S. small business will be ensured the opportunity to participate equitably in the furnishing of goods under the loan.

No.

Such technical assistance as may be financed under the loan will be contracted from private enterprise.

AID 1240-2

41. FAA § 252(a). Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurements from private sources.

All loan funds will go directly to private enterprise or intermediate credit institutions.

Loan's Compliance with Specific Requirements.

42. FAA § 201(d). Is interest rate of loan at least 2% per annum during grace period and at least 3% per annum thereafter?

Yes.

43. FAA § 303(a). Information on measures to be taken to utilize U.S. Government excess personal property in lieu of the procurement of new items.

The loan agreement will so provide.

44. FAA § 604(a). Will all commodity procurement financed under the loan be from U.S. except as otherwise determined by the President?

There will be no commodity procurement financed under the loan.

AID 1240-2

45. FAA § 604(b). What provision is made to prevent financing commodity procurement in bulk at prices higher than adjusted U.S. market prices?

There will be no commodity procurement financing under the loan.

46. FAA § 604(d). If the host country discriminates against U.S. marine insurance companies, will loan agreement require that marine insurance be placed in the U.S. on commodities financed on the loan?

Yes.

47. FAA § 604(e). If off-shore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity?

There will be no offshore procurement of any agricultural commodities financed under the loan.

48. FAA § 611(d); ARA § 101. If loan finances water or water-related land resource construction project or program, is there a benefit-cost computation made, insofar as practicable, in accordance with the procedures set forth in the Memorandum of the President dated May 15, 1968?

The loan will not finance a water or water-related land resources construction project or program.

FAA § 611(e). If contracts for construction are to be financed, what provision will be made that they be let on a competitive basis to maximum extent practicable?

Any construction contracts financed under the loan will be required, through the loan agreement, to be let competitively to the maximum extent possible.

AID 1240-2

50. FAA II 630(g). What provision is there against use of subject assistance to compensate owners for expropriated or nationalized property?

The loan agreement will preclude such use of funds.

51. FAA § 612(b); § 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized to meet the cost of contractual and other services.

LAAD is making a substantial contribution to the project. No U.S. owned foreign currency is available for this project.

52. App. § 104. Will any loan funds be used to pay pensions, etc., for military personnel?

No.

AID 1240-2

53. App. § 106. If loan is for capital project, is there provision for A.I.D. approval of all contractors and contract terms?
Yes.
54. App. § 108. Will any loan funds be used to pay U.N. assessments?
No.
55. App. § 109. Compliance with regulations on employment of U.S. and local personnel for funds obligated after April 30, 1964 (Regulation 7).
These regulations will be complied with.
56. 22 CFR § 636(i). Will any loan funds be used to finance purchase, long-term lease, or exchange of motor vehicle manufactured outside the United States, or any guaranty of such a transaction?
No.
57. 22 CFR § 401. Will any loan funds be used for publicity or propaganda purposes within U.S. not authorized by the Congress?
No.

AID 12-C-2

58. CAA § 620(f). *If construction of productive enterprise, will aggregate value of assistance to be furnished by U.S. exceed \$100 million?*
- The aggregate value of assistance to the project to be furnished by the U.S. will not exceed \$100 million.
59. CAA § 612(d). *Does the U.S. own excess foreign currency and, if so, what arrangements have been made for its release?*
- No excess foreign currency is owned by the U.S. in the region at the present time.
60. CAA § 601.b. *Compliance with requirement that at least 50 per centum of the gross tonnage of construction (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed with funds made available under this loan shall be transported on privately owned U.S. flag commercial vessels to the extent that such vessels are available at fair and reasonable rates.*
- This requirement will be complied with.

DIRECTORS

- * WILLIAM H. BGLIN
Senior Vice President
Bank of America N.T. & S.A.
San Francisco, California
- JOHN COLE
President
Cargill Americas
Minneapolis, Minnesota
- * PAUL F. CORNELSEN
Executive Vice President
Ralston Purina Company
St. Louis, Missouri
- GERMAN ALVAREZ-FUENTES
General Manager, Latin
American Area
The Dow Chemical Company
Coral Gables, Florida
- JAMES T. HALOM
President
Latin American Agribusiness
Development Corporation S.A.
New York, New York
- ROBERT A. HANSON
Managing Director, Latin
America Australia & Far East
Deere & Company
Moline, Illinois
- * ERNEST W. HORNIG
Assistant Treasurer
CPC International Inc.
Englewood Cliffs, New Jersey
- * DONALD J. KIRCHHOFF
Executive Vice President
Castle & Cooke, Inc.
Honolulu, Hawaii
- WILLIAM J. MCCARVILLE
Director, International Operations
Monsanto Company
St. Louis, Missouri
- FRANK A. MEYER
Vice President
Gerber Products Company
Freemont, Michigan
- LEE L. MORGAN
Executive Vice President
Caterpillar Tractor Co.
Peoria, Illinois
- JOHN J. O'CONNOR
President
Borden Inc. International
New York, New York
- * ALEJANDRO ORFILA
Representative
Adela Investment Company S.A.
Washington, D.C.
- * Credit Committee

MANAGEMENT

BIOGRAPHIC DATA

PRESIDENT: Mr. James T. Halom

Mr. Halom, a seasoned executive with more than 20 years experience in Latin American activities, is president and chief executive officer and a director of LAAD. Mr. Halom was formerly vice president of the Latin American Group of W. R. Grace & Co., New York, with whom he had been connected for 14 years. Previously he had worked for Pan American World Airways and prior to that had been active in foreign trade.

Born in Hungary, Mr. Halom is a graduate of the University of Budapest with an LLD in economics and law. He has done graduate work at the Sorbonne in Paris and Columbia University in New York. During World War II he served in the Pacific for three and a half years with the United States Army. His memberships include the Financial Executives Institute (Vice Chairman of International Liaison Committee) and the National Association of Accountants.

Upon assuming his new duties on August 1, 1970, Mr. Halom established headquarters in New York, where LAAD has opened an office at 680 Fifth Avenue.

CENTRAL AMERIC., REGIONAL REPRESENTATIVE: Mr. Thomas W. Mooney

Mr. Mooney, 46, was appointed regional representative for Central America with headquarters in Guatemala City on February 9, 1971. He joins LAAD after many years of experience in Latin American public and private organizations while serving with the International Bank for Reconstruction and Development (World Bank), the United States Agency for International Development (A.I.D.), and the Adela Investment Company.

A graduate of Washington University in his native St. Louis, Missouri, Mr. Mooney began his career in 1949 as an economic officer with the United States Department of State, serving first in Washington, D. C. and later at the United States Embassy in Paris. In 1958 he joined the World Bank as loan officer for Central America and four years later became chief of loans for A.I.D.'s regional office for Central America and Panama (ROCAP).

Six years ago Mr. Mooney became associated with the Adela Investment Company as representative for Central America and the Caribbean. In joining LAAD, Mr. Mooney has major responsibility for helping to identify and develop projects in Central America. He has resided in Guatemala for nine years.

LATIN AMERICAN AGRIBUSINESS DEVELOPMENT CORPORATION S.A. (LAAD)
(a Republic of Panama corporation)

B A L A N C E S H E E T

OCTOBER 31, 1970

Assets

Current assets:

Cash in banks and on hand (including \$250,000 in time deposits)	\$ 325,064
Foreign short-term commercial paper, at cost which approximates market	5,561,152
Accrued interest receivable	133,035
Other receivables	5,107
Prepaid insurance expense and deposits	<u>11,873</u>

Total current assets 6,036,231

Office equipment, at cost less accumulated depreciation of \$118	2,235
Organization expenses, at cost	<u>68,003</u>
	<u>\$6,106,469</u>

Liabilities and stockholders' equity

Current liabilities:

Loans payable to banks with interest between 4-3/4% and 10-3/16%, secured by certain short-term commercial paper	\$3,512,498
Accrued interest payable	64,149
Withholding taxes payable	2,000
Other payables	<u>1,376</u>

Total current liabilities 3,580,632

Stockholders' equity:

Common stock - \$5,000 par value, 3,000 shares authorized, 480 shares issued and outstanding	2,400,000
Retained earnings, per accompanying statement	<u>125,837</u>
	<u>2,525,837</u>
	<u>\$6,106,469</u>

UNCLASSIFIED

ANNEX III - Page 2 of 2

Exhibit A - Page 2 of 2

LATIN AMERICAN AGRIBUSINESS DEVELOPMENT CORPORATION S.A. (LAAD)

(a Republic of Panama corporation)

STATEMENT OF INCOME AND RETAINED EARNINGS

FROM INCEPTION ON JANUARY 26, 1970
TO OCTOBER 31, 1970

Income:		
Interest earned		\$279,814
Gain on foreign exchange		<u>5,982</u>
		285,796
Operating expenses:		
Salaries and employee benefits	\$23,540	
Professional services	30,681	
Office expense	6,147	
Travel and communication	10,275	
Public relations	442	
Other expenses	2,824	
Depreciation	<u>118</u>	
	74,027	
Interest expense	<u>85,932</u>	
Total expenses		<u>159,959</u>
Net income and retained earnings		<u>\$125,837</u>

UNCLASSIFIED

ANNEX III - Page 4 of 8

Exhibit B - Page 2 of 2

LATIN AMERICAN AGRIBUSINESS DEVELOPMENT CORPORATION S.A. (LAAD)
(a Republic of Panama corporation)

STATEMENT OF INCOME AND EXPENSE
FOR THE FIVE-MONTH PERIOD
ENDED MARCH 31, 1971

	<u>Current Month</u>	<u>Period To Date</u>
Income:		
Interest Earned on Deposits and Commercial Paper	\$ 56,656.11	\$ 251,235.46
Other	<u>3,314.46</u>	<u>6,530.87</u>
	\$ 59,970.57	\$ 257,766.33
Direct Expenses:		
Interest Expense	\$ <u>33,066.37</u>	\$ <u>137,877.44</u>
Profit Before Operating Expenses	\$ 26,904.20	\$ 119,888.89
Operating Expenses:		
Personnel	\$ 7,165.30	\$ 35,570.42
Professional Services	3,799.77	19,333.61
Office Expense	869.62	4,657.71
Travel and Communication	1,757.10	5,618.28
Public Relations	10.00	194.75
Depreciation	-	-
Amortization of Organization Expense	567.00	2,835.00
Provision for Income Taxes	-	-
Other Expenses	<u>453.30</u>	<u>1,014.58</u>
	\$ 14,622.09	\$ 69,224.35
Net Operating Income	\$ 12,282.11	\$ 50,664.54

ANNEX III - Financial Statements
STATE OF TEXAS
(S.M.C.)

	<u>12/31/70</u> Actual	<u>12/31/71</u> Estimated	<u>12/31/72</u> Estimated	<u>12/31/73</u> Estimated	<u>12/31/74</u> Estimated	<u>12/31/75</u> Estimated
ASSETS						
Cash (Including Time Deposits)	281	210	328	246	361	609
<u>Short Term Commercial Paper</u>						
Financed with Own Capital	2,187	681	1,200	600	600	600
Financed with Borrowed Funds	<u>3,395</u>	<u>7,200</u>	<u>9,600</u>	<u>9,600</u>	<u>12,000</u>	<u>12,000</u>
Sub-total	<u>5,582</u>	<u>7,881</u>	<u>10,800</u>	<u>10,200</u>	<u>12,600</u>	<u>12,600</u>
<u>Equity Investments</u>						
Central America	-	300	500	700	1,000 ^{1/}	1,100
Other Countries	-	258	400	600	800	1,200
Sub-Total	<u>-</u>	<u>558</u>	<u>900</u>	<u>1,300</u>	<u>1,800</u>	<u>2,300</u>
<u>Term Loans</u>						
Central America	-	1,500	3,500	5,300	7,000 ^{1/}	7,700
Other Countries	-	600	939	1,100	1,800	3,000
Sub-total	<u>-</u>	<u>2,100</u>	<u>4,439</u>	<u>6,400</u>	<u>8,800</u>	<u>10,700</u>
Fixed Assets	2	3	5	7	7	10
Other Assets	16	10	15	15	15	20
Organization Expenses	68	60	53	46	39	32
TOTAL ASSETS	<u>5,949</u>	<u>10,822</u>	<u>16,540</u>	<u>18,214</u>	<u>23,622</u>	<u>26,271</u>
<u>LIABILITIES AND NET WORTH</u>						
Short Term Borrowings	3,395	7,200	9,600	9,600	12,000	12,000
AID Loan	-	1,000	3,000	4,500	6,000	6,000
Long Term Loan	-	-	-	-	-	2,400
Other Liabilities	4	12	18	24	32	40
Reserve for Losses on						
Investments and Loans	-	52	159	303	515	645
TOTAL LIABILITIES	<u>3,399</u>	<u>8,264</u>	<u>12,777</u>	<u>14,427</u>	<u>18,547</u>	<u>21,085</u>
Capital Stock	2,400	2,400	3,600	3,600	4,800	4,800
Retained Earnings	150	158	163	187	275	386
TOTAL NET WORTH	<u>2,550</u>	<u>2,558</u>	<u>3,763</u>	<u>3,787</u>	<u>5,075</u>	<u>5,186</u>
TOTAL LIABILITIES AND NET WORTH	<u>5,949</u>	<u>10,822</u>	<u>16,540</u>	<u>18,214</u>	<u>23,622</u>	<u>26,271</u>

^{1/} Total Program \$8 million; \$2 million LAAD; \$6 million AID. AID funds limited to Term Loans.

LONG PROJECTIONS - 1971-1975
PROFIT AND LOSS STATEMENT
(\$'000)

	<u>1971 Est.</u>	<u>1972 Est.</u>	<u>1973 Est.</u>	<u>1974 Est.</u>	<u>1975 Est.</u>
<u>Income</u>					
Interest Earned on Short Term Paper					
Financed With Own Capital	135	108	54	54	54
Financed With Borrowed Funds-Net	<u>65</u>	<u>84</u>	<u>96</u>	<u>108</u>	<u>120</u>
Sub-total	<u>200</u>	<u>192</u>	<u>150</u>	<u>162</u>	<u>174</u>
Interest Earned on Term Loans					
Central America	68	225	396	558	666
Other Countries	<u>30</u>	<u>77</u>	<u>102</u>	<u>145</u>	<u>240</u>
Sub-total	<u>98</u>	<u>302</u>	<u>498</u>	<u>703</u>	<u>906</u>
Dividend Income From Equity Investments					
Central America	-	-	-	-	-
Other Countries	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Sub-total	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
 TOTAL INCOME	 <u>298</u>	 <u>494</u>	 <u>648</u>	 <u>865</u>	 <u>1,080</u>
<u>Direct Expenses</u>					
Interest Expense AID Loan	7	60	113	158	180
Interest Expense Term Loan	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>192</u>
<u>Profit Before Operating Expenses</u>	<u>291</u>	<u>434</u>	<u>535</u>	<u>707</u>	<u>708</u>
<u>Operating Expenses</u>					
Central America					
Personnel	35	65	70	75	80
Professional Services	10	20	25	30	35
Travel, Communications	15	20	25	25	30
Other	<u>5</u>	<u>10</u>	<u>15</u>	<u>20</u>	<u>25</u>
Sub-total Central America	<u>65</u>	<u>115</u>	<u>135</u>	<u>150</u>	<u>170</u>
Head Office & Other Countries					
Personnel	100	120	130	135	150
Professional Services	20	25	30	35	40
Travel, Communications	18	25	30	40	50
Other	<u>20</u>	<u>30</u>	<u>35</u>	<u>40</u>	<u>50</u>
Sub-total H.O. & Other Countries	<u>158</u>	<u>200</u>	<u>225</u>	<u>250</u>	<u>270</u>
 OPERATING PROFIT	 <u>68</u>	 <u>119</u>	 <u>172</u>	 <u>307</u>	 <u>238</u>
Amortization of Organization Expenses	8	7	7	7	7
Provision for Losses on Investments/Loans	<u>52</u>	<u>97</u>	<u>114</u>	<u>212</u>	<u>155</u>
 NET PROFIT	 <u>8</u>	 <u>15</u>	 <u>51</u>	 <u>88</u>	 <u>76</u>

LAAD PROJECTIONS
1971-1974
SOURCE AND APPLICATION OF FUNDS-
LOCAL CURRENCY* AND U.S. DOLLARS
(In thousands U.S.\$)

	1971				1972				1973				1974				TOTAL 1971-1974			
	Local Cy.*	U.S.\$	Amount	% of Total	Local Cy.*	U.S.\$	Amount	% of Total	Local Cy.*	U.S.\$	Amount	% of Total	Local Cy.*	U.S.\$	Amount	% of Total	Local Cy.*	U.S.\$	Amount	% of Total
Opening Cash Balance	-	281	281	5.4	-	210	210	5.5	-	328	328	16.5	-	248	248	4.8	-	281	281	1.6
SOURCES																				
Net Profit	-	8	8	0.2	-	5	5	0.1	-	24	24	1.2	-	88	88	1.6	-	125	125	0.7
Amortization of Organization Expenses	-	8	8	0.2	-	7	7	0.1	-	7	7	0.3	-	7	7	0.1	-	29	29	0.2
Provision for Losses on Investments/Loans	-	52	52	1.0	-	107	107	1.8	-	144	144	7.2	-	212	212	3.8	-	515	515	2.8
Other	-	8	8	0.1	-	6	6	0.1	-	6	6	0.3	-	8	8	0.1	-	28	28	0.2
Sub-Total	-	78	78	1.5	-	125	125	2.1	-	181	181	9.0	-	312	312	5.8	-	687	687	3.8
Increase in Short Term Borrowings	-	3,805	3,805	73.7	-	2,400	2,400	40.5	-	-	-	-	-	2,400	2,400	42.4	-	8,605	8,605	47.8
ATD Loan Drawdown	666	354	1,000	19.4	1,354	666	2,000	33.7	1,000	500	1,500	74.7	1,000	500	1,500	26.5	4,000	2,000	6,000	33.4
Capital Stock Increases	-	-	-	-	-	1,200	1,200	20.2	-	-	-	-	-	1,200	1,200	21.2	-	2,400	2,400	13.8
TOTAL SOURCES	666	4,215	4,881	94.6	1,354	4,391	5,725	96.5	1,000	681	1,681	83.7	1,000	4,415	5,415	95.7	4,000	15,702	17,702	98.4
Total Availability	666	4,496	5,162	100.0	1,354	4,601	5,935	100.0	1,000	1,009	2,009	100.0	1,000	4,861	5,861	100.0	4,000	15,883	17,983	100.0
Less:																				
APPLICATIONS																				
Increase/(Decrease) Short Term Investments	-	2,299	2,299	44.5	-	2,919	2,919	49.2	-	(600)	(600)	(29.8)	-	2,400	2,400	42.4	-	7,018	7,018	39.0
Equity Investments-From LAAD Funds:																				
Central America	200	-	300	5.8	200	-	200	3.4	200	-	200	9.9	300	-	500	3.5	1,000	-	1,000	5.0
Other Countries	-	258	258	5.0	-	142	142	2.4	-	200	200	9.9	-	200	200	3.5	-	800	800	4.4
Term Loans:																				
Central America-From LAAD Funds	500	-	500	9.7	-	-	-	-	300	-	300	14.9	200	-	200	3.5	1,000	-	1,000	5.0
Central America-From ATD Funds	666	554	1,000	19.4	1,354	666	2,000	33.7	1,000	500	1,500	74.8	1,000	500	1,500	26.5	4,000	2,000	6,000	33.4
Other Countries	-	600	600	11.6	-	339	339	5.7	-	161	161	8.0	-	700	700	12.4	-	1,600	1,600	10.0
Other	-	(5)	(5)	-	-	7	7	0.1	-	2	2	0.1	-	-	-	-	-	4	4	0.1
TOTAL APPLICATIONS	1,466	3,436	4,952	96.0	1,354	4,073	5,607	94.5	1,500	263	1,763	87.8	1,500	3,800	5,500	95.6	6,000	11,622	17,622	98.0
Closing Cash Balance	(800)	1,010	210	4.0	(200)	528	328	5.5	(500)	746	246	12.2	(500)	861	361	6.4	(2,000)	2,361	361	2.0

* CACM Countries
1/ IAAD Contribution
2/ ATD Loan

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LAAD PROJECTIONS

1971-1980

PROJECTIONS OF RETURN ON NET WORTH AND OF EQUITY TO DEBT RATIOS

(\$000)

	<u>Net Profit Estimate</u>	<u>Net Worth as at Beginning of Year</u>	<u>% Return</u>	<u>Total Equity at Yearend</u>	<u>Total Debt at Yearend</u>	<u>Equity to Debt Ratio</u>
1971	8	2,550	0.3	2,558	8,200	1 to 3.2
1972	5	2,558	0.2	3,763	12,600	1 to 3.3
1973	24	3,763	0.6	3,787	14,100	1 to 3.7
1974	88	3,787	2.3	5,075	18,000	1 to 3.5
1975	111	5,075	2.2	5,186	20,400	1 to 3.9
1976	138	5,186	2.7	6,524	24,800	1 to 3.8
1977	243	6,524	3.7	7,967	23,800	1 to 3.0
1978	392	7,967	4.9	9,559	25,200	1 to 2.6
1979	640	9,559	6.7	12,599	25,400	1 to 2.0
1980	800	12,599	6.3	15,799	26,400	1 to 1.7

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AID-DIC/P
ANNEX III, Page 8 of 8
Exhibit E
Page 1 of 1

CATEGORIES OF ACTIVITIES

The following categories have been given highest priority for financing:

1. Meat Products

Cattle, poultry, and hogs have a high priority in LAAD's program. It will develop, structure and participate financially in projects for the growing, slaughtering and processing of meat products. In order to qualify for LAAD assistance, projects for production and/or processing of livestock must provide for the utilization of advanced techniques, including supplemental feeding, pasture control and the use of proper health measures. LAAD will finance slaughterhouse projects which provide for the introduction of sanitary and processing techniques which contribute substantially to the value and quality of the product. It will promote and finance projects for portion control and further processing of meat products for the U.S. market not governed by quotas, and will afford high priority to projects aimed at non-U.S. foreign markets. LAAD will in no case provide financing merely to increase the volume of animal herds. Special attention will be given to the growing and processing of poultry and pigs and hogs for the local market. These can serve as a beef substitute permitting the export of the latter to continue to increase at a reasonable rate, while providing for an increase of protein foods for the Central American market.

2. Seafoods

Projects for the processing and export of seafoods will be of high priority. The potential for the seafood processing industry is being analyzed with the assistance of a major seafood processor connected with a LAAD shareholder.

3. Crop Financing

Priority has been assigned to crops within three general categories:

a. Projects for small volume specialty commodities which would enjoy a strong export market. Among these are sesame, cut flowers and seed corn. While not individually significant in the immediate future, a volume of projects within this category could have a significant effect on foreign exchange earnings and help provide for a more rational and less precarious export economy.

b. Food products in great demand and dangerously short supply -- or which are available in erratic supply -- to Central American processing industries at appropriate quality and price. A variety of fresh and processed vegetables and fruits fit this category.

c. Crops required by the local industrial market, such as animal feed components.

4. Refrigerated Storage, Warehouses, Transportation

These facilities and services can be most rationally dealt with as one integrated system. The failure to have done so in the past probably accounts for their erratic and generally unsatisfactory response to Central America's needs.

5. Capital Markets

The development of agribusiness or any other aspect of Central America's private sector, depends very substantially on the emergence of a capital market in the region. Because Central America's economy depends almost entirely on agriculture, the development of a continuing source of financing for its operation and growth is of highest priority. A system providing for the promotion of local funds must be caused to operate effectively. In order to accomplish this,

a corresponding system providing for the divestment of shares is essential. LAAD will promote the public sale of the shares of projects to complement its own participation in them.

LAAD must also develop a market for its own investment portfolio. It will need to continually rotate this portfolio, in order to generate funds for new investments. In order to accomplish this, LAAD will assist and restructure existing mechanisms which place securities and help create new mechanisms for this purpose. For example, LAAD will provide financing for brokerage services, trading companies and, eventually, local companies able to provide technical assistance to agribusiness. Though financing providing such companies would not be large, it would all be for local expenditures, to meet working capital needs. Such expenditures, with the exception of studies and technical assistance which could be AID financed, would be covered by LAAD.

EXAMPLES OF SUB-PROJECTS

Several projects which are in an advanced stage of preparation are described below:

A. Meat Products

1. Sponsor: Finca El Naranjo

Location: Guatemala

Amount: \$100,000

Form: Three-year loan with 1½-year grace on principal payments

Purpose: Purchase and fatten, with supplemental feeding, 4,500 cattle over a three-year period. This project is expected to serve as a demonstration to other major cattlemen in Guatemala's Pacific coast region who have heretofore resisted Government efforts to introduce supplemental feeding and other modern techniques. During the last ten years, Guatemala's cattle herd has actually decreased while exports have nearly tripled. Exports have been at the cost of local consumption. Proper application of supplemental feeding can increase the yield of meat and useable by-products by as much as 100%, and a proper feeding program can improve the quality of meat. Guatemala's principal slaughterhouse has introduced portion control processing and will be able to export non-quota meats to the United States. It will be in particular need of heavier and higher quality cattle to respond to this new market opportunity.

2. Sponsor: Empacadora Nicaragüense

Location: Nicaragua

Amount: \$300,000

Form: Five-year loan with one-year period
of grace on principal payments

Purpose: To improve sanitary conditions,
modernize techniques and raise slaughtering capacity
of this major meat exporter. The loan is required to
supplant earnings which have been directed to the de-
velopment of an integrated pig and hog growing,
slaughtering and processing project. LAAD is review-
ing the latter undertaking in contemplation of a par-
ticipation in the form of both debt and equity.

3. Sponsor: Maritime Fruit Carriers

Location: Guatemala

Amount: Approximately \$250,000

Form: Subordinated convertible debt

Purpose: Install a new plant on Guatemala's
Atlantic Coast to slaughter and process beef for the
European and Israeli kosher meat markets.

The basic project was initiated by the sponsor
with the assistance of FIASA and the Central American
Bank. LAAD will provide leadership in the structuring
and placement of the local ownership of this project.

B. Crop Financing - Processing and Marketing

1. Sponsor: Werner Köller

Location: Guatemala

Amount: Approximately \$50,000

Form: Equity

Purpose: The conversion of a single proprietor, \$35,000 cut flower export business into a \$240,000 corporation. LAAD is arranging a personal loan for Mr. Köller so that he may maintain control of his business, and will buy 49% of the company's shares. LAAD is making arrangements for \$140,000 worth of debt financing. The project is being discussed with the Banco Nacional Agrario, a Guatemalan public development institution, FIASA and CABEI.

2. **Sponsor:** Enrique Chamoro and LAAD

Location: Nicaragua

Amount: \$150,000

Form: Subordinated convertible debt or a straight debt and equity mix

Purpose: To grow, process and market sesame. The Central American, and especially the Nicaraguan, product enjoys a strong market demand in the United States because of its high quality. Sesame represented a meaningful source of foreign exchange some years ago. In recent years, land devoted to its production has been diverted to other crops which yield a higher income, mainly cotton. The Nicaraguan, and other Central American development authorities, are encouraging small farmers to enter sesame production. The product's cultivation cannot be mechanized, but it yields a higher profit than alternative crops cultivated by hand labor. It should become especially attractive, therefore, to small farmers. The land to be devoted to growing sesame had been used for cotton production. Although cotton can produce substantially higher income, it is also subject to heavy losses. Sesame appears to be a more stable industry.

3. Sponsor: Michael Thomas

Location: Costa Rica

Amount: \$200,000

Form: Subordinated convertible debt

Purpose: To expand and diversify the product line of a producer of cut flowers. In addition to flower production, LAAD and Mr. Thomas will examine the desirability of developing projects for the production of spices and other exotic export crops. Among the latter is achiote, the seed of which is used to produce dyes for foodstuffs. Recent regulations limiting the use of chemical dyes in the United States should encourage the development of projects to produce vegetable dyes in Central America.

4. Sponsor: INFONAC

Location: Nicaragua

Amount: \$200,000

Form: Five-year loan

Purpose: To provide INFONAC funds to finance growers of Yucca. INFONAC is expanding its pilot growing program into an effort to promote the diversification of medium-small farmers from marginal cotton production to yucca, which will be processed for marketing in Europe as cattle feed. The processing project, in which LAAD contemplates participating, has been well tested from the standpoint of technical feasibility and market. It will be ready for implementation as soon as the raw material flow reaches sufficient volume, probably within a year.

C. Transportation and Warehousing Program

1. Sponsors: LAAD with participation of the Eagle Trucking Company, LANSA Airlines, Reyes Trucking Company, a warehouse to be developed with a Guatemalan group headed by the country's leading slaughterhouse, and others not yet determined.

Location: Central America

Amount: Total undetermined. Participation in the initial project (Eagle) will be approximately \$400,000.

Form: Subordinated convertible debt.

Purpose: To provide for a system of land, sea and air cargo, and warehousing. The specific project serving as a nucleus to the program is sponsored by Eagle Incorporated of Miami, Florida. It provides for the operation of vessels with containerized and breakbulk cargo capacity between Central America, Miami and New York. Eagle Trucking has asked LAAD to structure and arrange for the 49% local ownership of their project, and to structure Eagle's relationship to the integrated program. Discussions leading to LAAD participation are well advanced with other potential participants in the undertaking. CABEI, which has approved a \$1.8 million loan to Eagle for the purchase of the ship, is anticipating LAAD's participation and assistance with this project.

D. Capital Markets

1. Sponsor: LAAD

Location: Central America

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Amount: To be determined

Form: Equity, loan and technical assistance

Purpose: The establishment and support of mechanisms to purchase, place, and hold for their own account Central American securities. LAAD is establishing a formal relationship with a small, undercapitalized but potentially effective brokerage service in Honduras called "Fomento Internacional". This company has established a relationship with a group in Costa Rica to which LAAD will provide training in securities analysis and brokerage procedures. LAAD is helping to establish a similar company in Nicaragua called "Compañía Centroamericana de Inversiones S.A." (COCINSA). Compatible institutions will be established in both Guatemala and El Salvador.

LATIN AMERICAN AGRIBUSINESS DEVELOPMENT CORPORATION (LAAD)

January 26, 1970

OPERATING INVESTMENT PROCEDURES

Operating investments and loans are approved by the Board of Directors or under authority it may delegate from time to time to committees and the President. Investments and loan proposals will be thoroughly studied by LAAD's management and staff. The following criteria will be used in appraising proposals:

1. The market for the products and services of the project.
2. Technological and economic feasibility, profitability prospects for growth and capital appreciation and payability in the case of the loan.
3. The standing, reputation and extent of the participation of local investors and entrepreneurs participating in the project.
4. The technical and management requirements and their availability for the project.
5. The priority and importance of the project in the development of the country's economy.
6. Appraisal of economic, political and financial conditions and the investment climate in countries in which investments are contemplated.

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In the study and development of projects, LAAD will utilize all existing sources of information and expertise such as are to be found in the specialized branches of the U.S. and Latin American governments, the multi-national technical assistance agencies, the educational and technical institutions of all countries involved, the specialized branches of the partners in LAAD which might be made available, and in other organizations such as the Agribusiness Council.

As a condition of its equity investments LAAD will normally require the following: representation on the board of directors; adequate legal arrangements for the protection of the rights of minority shareholders; the appointment of qualified independent public accountants as auditors; the establishment of adequate internal accounting procedures; and periodic, financial and operating reports.

Supervision and review of investments will be effected through representation on the board of directors, frequent visits to the enterprises and their facilities, continuous review and analysis of general conditions in the country and region where the enterprise is located, and prompt and detailed analysis of the financial and operating reports required from the enterprises.

MINUTES*

L.A. CAPITAL ASSISTANCE EXECUTIVE COMMITTEE

March 2, 1971

SUBJECT: IRR -- LAAD

1. The CAEC met on 2 March to consider proposed IRR. The request was approved for intensive review subject to ROCAP's affirmative conclusions of the following issue:

In view past cases of over-optimistic conclusions re sub-project possibilities of development banks, the committee would like a determination that there are concrete examples of projects needing financing rather than merely a general categorization of possible project areas. In addition, it should be demonstrated that such financing is not available from alternative sources (such as CABEI, which can use up to dols 2.5 million of Loan L-010 for equity investments, and development banks). Prior to initiating intensive review, ROCAP should study, in conjunction with LAAD, three or four such significant sub-projects where pre-investment studies have been substantially completed. Study should seek to determine whether (1) projects are concrete, (2) projects depend on type of financing LAAD can provide, i.e., equity and/or quasi equity and (3) other institutions unwilling provide this type of financing.

2. The following additional issues should be considered during intensive review and conclusions discussed in the loan paper:

A. The financial analysis should provide a detailed description and justification of the following:

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(1) Loan Terms -- Recommended terms of AID loan should be most consistent with demands of project considering such factors as risk, interest spread requirements, types of activities being financed, types of assistance provided, etc.

(2) AID Guarantee -- An effort should be made during intensive review obtain guaranty of LAAD shareholders for all or a part of the proposed loan. FYI a full or PA guaranty, however, is not considered a prerequisite to AI approval. What is required, however, is basis for determining reasonable prospects for repayment. End FYI.

(3) Debt/equity Ratio -- We recommend 3 to 1 ratio to assure significant exposure from LAAD stockholders. Thus, loan of dols 6 million should require at least dols 2 million of LAAD equity applied to its CACM activities.

(4) Financial conditions -- Loan paper should recommend conditions re restrictions on LAAD dividend policies, requirements to divest shares of portfolio, assurances against acquiring controlling interests of firms receiving assistance, minimum equity requirements for sub-projects (excluding LAAD equity), provision make AID creditor of first repayment position in event financial difficulties, and security arrangements for LAAD sub-loans. Re latter point, while committee can understand need offer quasi-equity while other lenders provide shorter-term secured financing, efforts should be made to maximize security whenever possible to minimize overall risk.

(5) MOV considerations -- determination should be made re MOV conditions of sub-loans and whether legal in all CACM countries.

(6) Local Currency Financing -- Projected cash flow should justify whatever AID financed local currency costs are recommended.

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B. Organizational structure and staffing pattern of LAAD should be fully discussed and covenants recommended providing assurances that LAAD will recruit technical staff needed to provide project identification and promotional activities sometimes lacking in LDC development banks. In addition, in view importance LAAD management, loan should include covenant that AID must approve manager for LAAD CACM operations.

C. Loan paper should provide rationalization of proposed project with other AID assisted activities to CABEI, financieras, agricultural sector and credit loans. Questions raised as to why similar objectives could not be attained with loans already in existence. Impact of this project to those countries (Costa Rica, Guatemala, El Salvador) having agriculture sector analyses should also be discussed.

D. Eligible categories of projects should be fully discussed as well as description of those projects -- see 1A above -- where pre-investment analysis at advanced stage. ROGERS

* Incoming Telegram from Washington UNCLAS STATE 040498.

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AID/DLC/P - 972/A

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DRAFT LOAN AUTHORIZATION

PROVIDED FROM: ALLIANCE FOR PROGRESS LOAN FUND
LAAD : AGRIBUSINESS DEVELOPMENT - CENTRAL AMERICA

Pursuant to the authority vested in the Deputy U.S. Coordinator, Alliance for Progress, by the Foreign Assistance Act of 1961, as amended, and the Delegations of Authority issued thereunder, I hereby authorize the establishment of a loan pursuant to Part I, Chapter 2, Title VI, Alliance for Progress, of said act, to the Latin American Agribusiness Development Corporation ("LAAD") ("Borrower") of not to exceed six million United States dollars (\$6,000,000) to assist in financing the United States dollar and local currency costs of a program to provide long-term financing and technical assistance to agribusiness projects and to develop the basic mechanics of a capital market in Central America of which not to exceed the equivalent of two hundred thousand United States dollars (\$200,000) may be used for technical assistance). The loan shall be subject to the following terms and conditions:

A. Interest and Terms of Repayment: Borrower shall repay the loan to the Agency for International Development (A.I.D.) within twenty (20) years from the first disbursement under the loan, including a grace period of amortization of principal of five (5) years. Borrower shall pay to A.I.D. in United States dollars interest on the disbursed balance of the loan of three (3) percent per annum.

B. Other Terms and Conditions:

1. Except for marine insurance, goods, services and ocean shipping financed under the loan shall have their source and origin in the United States or any independent country of the free world included in A.I.D. Geographic Code 941 or Central America itself. Marine insurance financed under the loan shall have its source and origin in the United States or any independent country in the free world included in A.I.D. Geographic Code 941 or Central America provided, however, that such insurance may be financed under the loan only if it is obtainable on a competitive basis and any claims thereunder are payable in convertible currencies. If, in connection with the placement of marine insurance on shipments financed under United States legislation authorizing assistance to other nations, any country of Central America, by statute, decree, rule or regulation favors any marine insurance company of any country over any marine insurance company authorized to do business in any state of the United States of America, goods financed under the loan and imported into said country from outside of Central America shall during the continuance of such discrimination be insured against marine risk in the United States of America with a company or companies authorized to do marine insurance business in any state of the United States of America.

2. No funds made available under this loan nor any repayments of principal from subloans made from funds made available under this loan may be used to pay the administrative or operating expenses of the Borrower.

3. Repayments of principal from subloans may be used only for the same category of use for which the funds were originally made available.

4. Prior to the first disbursement or to the issuance of the first letter of commitment under the loan, the Borrower shall, except as A.I.D. may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., the following:

- (i) a plan for the objective and comprehensive review of all investments and sub-loans by Borrower to assure that such activities are feasible, economically justified and technically sound;
- (ii) a statement of the standards and procedures it will follow in making and administering investments and sub-loans and in providing technical assistance;
- (iii) a plan for the periodic audit of sub-loans;
- (iv) an opinion or opinions of counsel, acceptable to AIF, that Borrower has the necessary legal authority to do and perform the activities that it has undertaken in the loan in accordance with the laws of the Countries in which it proposes to conduct business;
- (v) a certified copy of its corporate charter and by-laws and a copy, duly attested by the Secretary of the Borrower, of Borrower's operating policies which shall include but is not necessarily limited to an administrative and technical staffing plan of its Central American office; a financial plan for the establishment of an adequate reserve for the payment of this Loan; and a plan for a subsidiary which would limit its activities only to Central America and the sale of its equities to Central American investors.

5. Unless A.I.D. otherwise agrees in writing, Borrower shall not:

- (i) Amend or modify its corporate charter, by-laws, or operating plans;

- (ii) Finance from A.I.D. funds any sub-project or sub-borrower in excess of two hundred thousand U.S. dollars (\$200,000) or the local currency equivalent thereof or any combination thereof.
- (iii) Make sub-loans for less than three years or charge a rate of interest (including all discounts, fees, commissions, or other charges) in excess of 9% per annum on the disbursed balance of the subloan;
- (iv) Make sub-loans or investments of the A.I.D. loan which exceed a ratio of three times the amount of sub-loans or investments from Borrowers capital;
- (v) Make sub-loans or make equity investment in activities in which Borrower's shareholders or officers or employees have an equity interest;
- (vi) Make sub-loans from A.I.D. funds to partially finance activities which are utilizing "tied credits", from other than the United States, which are on terms less favorable as to source and origin of goods as are authorized under this loan;
- (vii) Incur additional indebtedness in excess of an debt-equity ratio of 5-1;
- (viii) Incur any indebtedness which would enjoy a senior position to the obligation incurred under this Loan;
- (ix) Make sub-loans from A.I.D. funds for working capital except for financing costs of raw materials (inventory);
- (x) Maintain a reserve for bad debts of less than 2% of its total sub-loan portfolio;

- (xi) Declare or pay dividends (of any nature whatsoever) except out of accrued earnings and then only after the five year grace period of the A.I.D. loan and reserves adequate to service the A.I.D. loan have been, as agreed in writing by A.I.D., established by the Borrower.
 - (xii) Use more than four million United States dollars (\$4,000,000) to finance Central American goods and services.
 - (xiii) Alienate any sub-loans by hypothecation, pledge, assignment or otherwise.
 - (xiv) Appoint a person as its Central American representative who has not been approved in advance by A.I.D.
6. Prior to the disbursement of more than one million dollars (\$1,000,000) of loan funds, a joint review of the progress of the program shall be held by the Borrower and A.I.D. and thereafter when successive units of \$1 million are to be disbursed.
7. The loan shall be subject to such other terms and conditions as A.I.D. shall consider appropriate.

Deputy U.S. Coordinator
Alliance for Progress
