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

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PROJECT PAPER

Proposal and Recommendations  
For the Review of the  
Development Loan Committee

Caribbean Regional - LAAD, Regional Agribusiness Development

AID-DLC/P-2127

LAA/DR

UNCLASSIFIED

on-going

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

UNCLASSIFIED

AID-DLC/P-2127

November 25, 1975

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Caribbean Regional - LAAD, Regional Agribusiness  
Development

Attached for your review are the recommendations for authorization of a loan to the Latin American Agribusiness Development Corporation, S.A., a Panamanian corporation ("Borrower") in an amount 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 ("Program") to provide long-term financing and technical assistance for the promotion, development and expansion of agribusiness enterprises and systems with emphasis on activities involving food production in selected countries of the Caribbean Basin and South America.

The loan proposal is scheduled for consideration by the Development Loan Staff Committee on December 15, 1975 at 2:00 p.m.; please note your concurrence or objection is requested by close of business on December 18, 1975. If you are a voting member a poll sheet has been enclosed for your response.

Development Committee  
Office of Development Program  
Review



PROJECT PAPER

CARIBBEAN REGIONAL - (LAAD/CARIBE)

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## PROJECT PAPER

### CARIBBEAN REGIONAL PROJECT

LATIN AMERICAN AGRIBUSINESS DEVELOPMENT CORPORATION, S.A.

(LAAD)

#### PART I. SUMMARY AND RECOMMENDATIONS

##### 1. The Borrower

The Borrower will be the Latin American Agribusiness Development Corporation, S.A. (LAAD). LAAD was incorporated in Panama as a private investment and development corporation in 1970. Its shareholders (See Annex V, Exhibit 1 for shareholder list) are leading industrial and financial corporations with substantial commitments to agribusiness sector activities in general and to agribusiness development in Latin America in particular. LAAD's principal offices are located in Miami, and a subsidiary, LAAD de Centro-america (LAAD-CA), is located in Guatemala City, Guatemala. LAAD develops and finances small and medium sized Latin American agribusiness or agribusiness related ventures with high growth potential and with emphasis on development of the marketing capabilities of the companies it supports.

##### 2. The Loan

- a) Amount: U.S. \$6.0 million, to be disbursed over a three year period from date of satisfaction of the conditions precedent to initial disbursement.
- b) Terms: 20 years, including a five grace period on amortization of principal, with interest at three percent on the disbursed balance of the loan.

##### 3. Goals and Purpose

The goals of this project are to benefit the poor in areas where LAAD operates and to contribute substantially to the promotion, development, and expansion of agribusiness systems and enterprises in the Caribbean and the Latin American North Coast area. Achievement of the project

goal will be possible through an approach of identifying and addressing deficiencies and constraints in agricultural production, processing, distribution, and marketing systems and applying selectively capital, management, training, technical and financial assistance to improve the functioning of elements of those systems. The primarily non-traditional agribusiness enterprises to be promoted under this project will result in the creation of substantial new rural and non-rural employment opportunities and other benefits.

A major conceptual premise of the LAAD approach to agribusiness development is that it should cover a representative area of Latin America in order to marshal the financial and technical resources necessary to allow LAAD to reach its potential as a specialized development finance company engaged in high risk, non-traditional agribusiness ventures. Therefore, a major LAAD objective, and a goal of the proposed project, is the replication of its successful Central American experience in other Caribbean and Latin American countries.

The purpose of this project is: a) to support the expansion of LAAD's agribusiness development activities into the Caribbean and the Latin American North Coast area and b) thereby to contribute to the development of LAAD as an agribusiness development organization with a base and focus of operations sufficient in size and scope to facilitate operating economies of scale and to attract expanding shareholder and affiliate participation in LAAD programs.

It is estimated that some 40 sub-projects largely comprising food production, processing, packaging, and storage operations, will be financed during the three year AID loan disbursement period and that this number will increase to 120 sub-projects over the life of the project. Similarly, it is estimated that the project would directly create some 5,800 jobs during the first round and a total of 17,000 jobs by the end of the project's life. These and other benefits are outlined in Section III - Economic Analysis

#### 4. The Target Group

The priority beneficiaries of the proposed project will be the rural poor in areas where LAAD sub-projects will operate. This target group will be composed largely of rural landholding small farmers and landless workers. LAAD Caribe's approach to reaching the target group is to strengthen the market outlets for the products of small farmers and through the establishment of such facilities as fruit and vegetable processing plants offer them feasible opportunities to move from traditional to higher value crops. LAAD Caribe will also develop labor intensive

agroindustries utilizing rural workers (such as seeds and floral products and such highly technical crops as mushrooms). It is not expected that LAAD Caribe with its small staff will work directly with small farmers. Rather LAAD Caribe will complement AID and other international lending institutions loans involving rural infrastructure and direct small farmer credits.

## 5. Project Description

The resources to be made available under this project will allow LAAD, an entrepreneurial investment corporation, to create a Caribbean subsidiary to promote, finance and implement agribusiness enterprises in the Caribbean and the Latin American North Coast areas. These businesses are expected to produce significant economic impacts (increases in value-added and foreign exchange earnings), benefit a target group of small farmers and other rural poor (through purchases of small farmer production and other employment generation effects), and contribute to the development of increasingly efficient agribusiness operations (through emphasizing the elimination of bottlenecks in the integrated farm to market system). The proposed undertaking in the Caribbean and the Latin American North Coast area and LAAD's Central American program will be mutually reinforcing, serving over time to promote intra- and inter- regional trade and exchanges of experience. The proposed expansion of LAAD's activities will also allow LAAD to extend more effectively those services it now provides to its clients in the fields of marketing, technology, and finance.

## 6. Origin of the Project

The proposed project represents an expansion of joint AID-LAAD efforts in agribusiness development activities which began with an FY 1972 \$6.0 million AID loan to LAAD in support of an agribusiness development program in five Central American countries. The successful completion of the first phase was followed by a proposal for a \$12.0 million loan to consolidate the Central American activity and to enable LAAD to expand its operations into the Caribbean and Latin American North Coast region. Unforeseen cuts in the FY 1975 Foreign Aid Appropriations in late March led to the necessity of breaking the project into two parts. The decision was made to fund the Central American portion at a level of \$5.0 million and to defer the Caribbean part

7. Summary Cost Estimate and Financial Plan

Direct LAAD commitments in the Caribbean and Latin American North Coast areas are estimated to be no less than \$8.0 million over the next three years. \$6.0 million of this amount would come from the AID loan and \$2.0 million from LAAD's capital. Other resources will be sought (EximBank, OPIC, commercial banks) in direct support of specific sub-projects as appropriate.

Conservatively estimated, the proposed program will provide a total additional investment of approximately \$35.2 million over the three year draw down period of the AID loan as shown below:

<u>Source</u>	<u>Amount</u>	<u>Purpose</u>
AID	\$6.0 million (Entirely U.S.\$)	Loans and equity. Foreign exchange costs (Area Code 941) of goods and services; local procurement and construc- tion costs.

<u>Source</u>	<u>Amount</u>	<u>Purpose</u>
LAAD	\$2.0 million (Entirely U.S.\$)	Primarily equity investments
Private Investors	\$11.2 million (Primarily local Currency)	Land acquisition and working capital.
Other loans to sub- projects	\$16.0 million (Contributions of U.S.\$ and local Currency)	Long term borrowings from other development banks and commercial bank financing of work ing capital needs covering production, inventory, and export shipments.
<hr/>		
\$35.2 million		

#### 8. EximBank and Alternative Sources of Financing

The EximBank formally informed AID on November 25, 1974, that it was not prepared to consider financing this project. The IBRD and IDB (letters of November 18, 1974 and December 11, 1974, respectively) have expressed no interest in financing the project.

#### 9. Views of USAIDs

All AID Missions in Caribbean and the Latin American North Coast countries where the proposed LAAD subsidiary will operate have indicated the project is complementary to or supportive of national government and AID programs in those areas. The goals of this project are directly responsive to AID's priority emphasis on increasing food production and providing benefits to the rural poor.

#### 10. Statutory Criteria

All statutory criteria for the Foreign Assistance Act of 1974 have been met. (See Annex IV).

#### 11. Issues

The proposed project presents no unresolved issues. A limited number of issues had been identified in the IRR submitted on October 10, 1974, and the subsequent DAEC reviews of that IRR. Each of these issues has been

analysed by the Project Committee during the intensive review of this project with a resultant determination that no substantive issues are contained in the proposal.

A summary of the issues and their resolution follows:

A. LAAD Expansion into New Areas

The July 1974 Checchi evaluation of LAAD-CA activities noted LAAD's contemplated expansion of activities into new areas and stated that the feasibility of such an expansion should be considered on its merits but that it should not rely on major inputs from the then existing LAAD staff. The Checchi report also questioned the wisdom of entering new geographical areas while the Central American activities were still in a developmental stage.

The Project Committee analyzed the potential for non-traditional agribusiness activities in the proposed Caribbean and Latin American North Coast areas and determined that numerous opportunities exist, sufficient to support the operations of a separate subsidiary for the new area. The Caribbean subsidiary would pattern its operations on the successful model of LAAD's Central American subsidiary, building and utilizing its own adequate staffing and financial resources. A significant potential exists for expanded relationships between Central American and Caribbean agribusiness enterprises and systems which the new subsidiary can promote, thereby strengthening both subsidiaries, and current and planned LAAD-provided services (e.g., LAAD Marketing Co.) can be made available more efficiently, if LAAD's overall list of clients can be expanded.

Although still a small company with a short history, LAAD's activities in Central America have passed through the experimental stage. Its successful investment of project funds, the growth in earnings generated, and the substantial benefits produced by those projects it promotes support that conclusion. While caution should always be exercised in initiating or expanding activities of this nature, there is adequate evidence cited in this report to ensure confidence in LAAD's approach to agribusiness development and that the proposed expansion will succeed.

### B. Debt/Equity Ratio

In considering the recently presented loan project to LAAD for the Central American program, the DAEC recommended a 2.5:1 ratio of AID funds to LAAD equity instead of the proposed 3:1. However, an essential difference exists between the two projects. The recent loan to LAAD for the Central American subsidiary was the second AID loan for that purpose, and an argument could be made that stronger terms for the AID input were appropriate. The project proposed in this paper involves an AID loan to LAAD for a new subsidiary to be created with the total resources of the project, and, therefore, it is recommended that AID require LAAD to raise an additional \$2.0 million in equity as its financial participation in the project, implying a 3:1 AID debt to LAAD equity ratio. This requirement is the same as was originally provided in the first \$6.0 million AID loan to LAAD-CA.

The basis for recommending a 3:1 ratio pertains to the viability of the proposed subsidiary. Even a 3:1 ratio is extremely low for similar financial institutions; it is significantly lower than any previous AID concessional loan to a private financiera in Latin America. The 3:1 ratio will provide LAAD and its subsidiary with a viable equity and quasi-equity base (the AID loan) which can be used to attract other debt and equity funding required for subsequent growth.

### C. Interest Rate

The Project Committee recommends a 3% interest rate on the proposed AID loan. The recent AID loan to LAAD for the Central American program had also been proposed on the same terms. However, the DAEC determined the appropriate interest rate for that project should be 4%.

For the same reasons noted in B. above, plus the fact that a maximum average LAAD sub-lending rate of 9.5% is assumed for the projects to be funded under this proposal (See PART III,C; Financial Analysis), the more concessional terms are considered justified for this project.

#### D. Size of the Proposed Loan

Again, the reasons for recommending a \$6.0 million loan are those which justified a similar loan to LAAD for its Central American program: considerations of viability. The minimum costs of setting up a meaningful development assistance program are to a certain extent fixed. The expenses of operating LAAD's subsidiary in Central America were close to the original projections, and inflation is increasing them. Projections demonstrate that the total \$8.0 million program for the Caribbean subsidiary will be just adequate to cover the overhead and leave a small profit, until its equity portfolio can mature to the point of yielding dividends and capital gains.

Inflation and the higher costs of operating in an area like the Caribbean are expected not to allow LAAD's proposed Caribbean subsidiary to break even financially until several years from the first disbursement. Thereafter the proposed subsidiary will be able to show only modest earnings through 1985, not enough to attract local capital. On a consolidated basis, however, LAAD itself could show a reasonable return on its equity by 1985, and the total corporation would be able to attract additional equity and commercial debt for self-sustained growth. LAAD's ability to reach minimum financial viability, while maintaining the desired scope and nature of operations, decreases markedly with any reduction in the proposed loan level. (See Section IV, Financial Analysis)

#### E. Expansion into Colombia

Although not one of the Caribbean island countries, the Project Committee recommends that Colombia be included as an eligible country under the project based on the agribusiness opportunities existing in Colombia, the need to balance the program of the proposed subsidiary in the smaller Caribbean countries, and the requirement to attract new shareholder capital to LAAD.

An expansion program based exclusively on the Caribbean island countries (plus Belize) would present difficulties in implementation. These countries present unique problems: lead times to start projects are longer, risks are higher, and project sizes smaller. It is important to balance off such characteristics with a larger market and with a larger source of entrepreneurial talent such as Colombia presents.

Overall, the expansion into a Caribbean region to include Colombia is critical, if LAAD is to attract the necessary additional capital for continued growth. LAAD management's experience in soliciting new corporate shareholders has shown that Central America alone is not of sufficient interest for most companies. The addition of the Caribbean islands improves the argument in terms of the numbers of countries, but only Colombia is large enough in its own right to make the package attractive to corporations potentially interested in new or further equity participations in LAAD.

#### F. AID Loan Administration

Since AID organization does not include a regional Caribbean field office such as ROCAP for Central America, administration of the proposed project could be handled by a field mission in one of the countries of the proposed project, ROCAP itself, or AID/Washington. Significant drawbacks were found by the Project Committee to the first two alternatives, and it is recommended that the Latin American Bureau's Office of Development Resources be assigned project management responsibilities, with USAIDs in project area assisting with activities such as regular sub-project site visits, as these are required. The specific arrangements for this procedure are elaborated in PART IV, Implementation Arrangements.

### 12. Recommendations

On the basis of the conclusions of the Capital Assistance Committee presented herein that the project is technically, economically, and financially sound, recommendation is made for authorization of a loan in an amount not to exceed \$6.0 million.

#### A. Terms:

1. Amortization: 20 years
2. Grace Period on Principal Repayment: 5 years
3. Interest Rate: 3%

#### B. Conditions

##### 1) Conditions Precedent to Initial Disbursement

Prior to the first disbursement or the issuance of any commitment documents under the loan, the Borrower shall, except as AID may otherwise agree in writing, furnish to AID, in form and substance satisfactory to AID, the following:

(a) a plan for the objective and comprehensive review of all investments and subloans proposed to be made by Borrower or any Caribbean subsidiary of Borrower to assure that such proposed activities are economically justified and technically sound;

(b) a plan for the evaluation of proposed sub-project activities by the Borrower or any Caribbean subsidiary of Borrower under the Program to assure that such proposed activities will produce economic benefits, benefits to rural poor in areas where the proposed activities will be located, and contribute to the development of agribusiness systems or enterprises;

(c) a statement by Borrower and any Caribbean subsidiary of Borrower setting forth the standards and procedures each will follow in authorizing and administering investments and sub-loans;

(d) a statement by Borrower and any Caribbean subsidiary or affiliate of Borrower setting forth the standards and procedures each will follow in providing assistance to clients;

(e) certified copies of the corporate charters and by-laws of Borrower and a Caribbean subsidiary of Borrower, authorized by the respective Boards of Directors of each which subsidiary will restrict its activities unless AID otherwise agrees in writing, to: the Caribbean countries of Haiti, the Dominican Republic, Jamaica, Barbados, as well as the British Island territories but excepting Puerto Rica, Cuba, the Bahamas, Trinidad and Tobago, and the Netherlands Antilles; and to the countries of Panama, Belize, Guyana, and Colombia;

(f) a certified copy of the resolution of the Borrower's Board of Directors authorizing and directing Borrower to contribute a minimum of \$2.0 million, acquired from equity capital paid in to the Borrower, to the capital of the Caribbean subsidiary for the program;

(g) an opinion or opinions of counsel, acceptable to AID, that Borrower and any Caribbean subsidiary of Borrower have taken all corporate and legal action required under the laws of the countries in which they propose to do business in order to fulfill their obligations under the loan and to implement the Program effectively;

(h) certified copies of the operating policies of Borrower and any subsidiary of Borrower, including any Caribbean subsidiary authorized by the

respective Board of Directors of each, which policies shall include but not necessarily be limited to:

-- an administrative and technical staffing plan of any Caribbean subsidiary,

-- policies controlling the divestment of equity investments to be made in enterprises financed with funds made available under the Program,

(i) a plan for the periodic audit of sub-loans made by Borrower and any subsidiary of Borrower.

COVENANTS

2) Except as AID otherwise agrees in writing neither Borrower nor any subsidiary of Borrower shall:

(a) utilize AID loan funds or any repayments of principal from sub-loans made from AID loan funds to pay administrative or operating expenses of Borrower or any subsidiary of Borrower;

(b) permit AID funds to be used to finance any sub-project or to make sub-loans to any sub-borrower in excess of two hundred thousand United States dollars (\$200,000), or the local currency equivalent thereof, or the combined United States dollar and local currency equivalent thereof;

(c) make sub-loans with repayment terms of less than three (3) years;

(d) make or permit any Caribbean subsidiary of Borrower to sub-loans or investments which utilize AID loan funds to exceed at any time three (3) times the total of sub-loans or investments financed from capital paid in by Borrower to the Caribbean subsidiary;

(e) make sub-loans to or equity investments in businesses or other activities in or with respect to which shareholders, officers, or employees of Borrower or any subsidiary of Borrower have an equity interest or any interest through a licensing, royalty, or distributorship agreement;

(f) make sub-loans from AID funds for working capital, except for financing costs of raw materials (inventory);

(g) utilize more than 25 percent of AID funds for eligible sub-projects in Colombia nor less than 20 percent of AID funds for eligible sub-projects in Haiti and the lesser islands and British territories;

(h) permit Borrower's Caribbean subsidiary to maintain a reserve for bad debts of less than three percent (3%) of its total sub-loan portfolio;

(i) appoint as manager of Borrower's Caribbean subsidiary a person whose appointment has not been approved in advance by AID in writing;

(j) declare or pay dividends on shares of its common stock;

(k) declare or pay dividends on either common or preferred shares from sources other than accrued earnings and after adequate reserves for bad debts;

(l) incur any indebtedness for a term exceeding one (1) year without the prior approval of AID;

(m) incur any indebtedness which would enjoy a position superior to the obligation incurred under the AID loan;

(n) amend or modify its corporate charter, by-laws or operating plans or undergo any type of corporate reorganization.

3) Prior to the commitment of more than one million United States dollars (\$1,000,000) of loan funds, and thereafter when successive commitments totalling one million United States dollars (\$1,000,000) have occurred, AID, Borrower and its Caribbean subsidiary shall hold a joint review of the progress of the Program.

4) Repayments of principal from AID funded sub-loans may be used only for those purposes for which the AID loan funds were originally made available.

13. Project Committee: Richard C. Crisler, Jr., LA/DR (Chairman)  
Edward Lijewski, LA/DR  
Sher Rana, LA/DR  
Malcolm Honadle, SER/FM  
Joaquin Marquez, GC/LA

Drafted by: RCCrisler/ELijewski/SRana/MHonadle

PART II      PROJECT BACKGROUND AND DETAILED DESCRIPTION

A. BACKGROUND

1. Borrower

a. General Description

Through the collective efforts of its founding stockholders beginning in 1968, the Latin American Agribusiness Development Corporation, S.A. (LAAD) was incorporated in Panama as a private corporation on January 26, 1970. Its shareholders (originally numbering twelve in 1970; fifteen at present) are comprised of leading industrial and financial corporations with substantial commitments to agribusiness sector activities in general, and to agribusiness development in Latin America in particular. LAAD is managed by a small staff operating out of its Head Office in Miami, Florida, and a Central American subsidiary office in Guatemala City.

LAAD was established to strengthen and expand private agribusiness enterprises in Latin America with the active support of its shareholders. The Corporation develops and finances small and medium sized Latin American agribusiness or agribusiness related ventures. LAAD places great emphasis on building up the marketing capabilities of companies it supports, particularly in regional and international markets. When appropriate, LAAD also seeks to broaden the ownership of these companies among local investors.

LAAD's authorized capital is \$15.0 million of which \$3.0 million has been paid in. Each shareholder contributes \$200,000 and is represented on the company's Board of Directors. The company's total financial resources from equity and borrowing facilities now exceed \$17.0 million. (See description below of past AID support to LAAD.)

LAAD will consider any form of financial participation in eligible agribusiness projects, including combinations of equity, debt, convertible debt, and guarantee commitments. As an equity investor, LAAD prefers joint ventures and will only consider minority participations. It is LAAD's policy to divest its equity holding over time, in preference within the local capital market. On occasion, LAAD will make longer term equity investments in agribusiness activities with which it intends to build a more permanent relationship, especially those engaged in export marketing. An important consideration in determining the form of LAAD's financial participation is the total role that it can play in assisting a project to become successful.

As an investor and lender, LAAD seeks out agribusiness opportunities with high long term growth potential. LAAD requires that any project it finances make a meaningful contribution to the economy of the host country. Further, as a private profit making company, LAAD investments must demonstrate a return or yield commensurate with their risks.

When evaluating proposals for its financing, priority factors considered by LAAD are: the business ability of the projects' sponsors and management, market growth potential, and distribution capability of the project; the project's competitiveness; and the project's total importance to the local economy and its impact on the target group. Special priority is given to investment opportunities involving the export of non-traditional agricultural based products to regional and international markets.

In addition to providing financing directly to private companies, LAAD also provides business services. The most important of these is the ability to provide assistance to develop and structure a business venture. LAAD's management has years of investment banking experience in Latin America, that area with extensive technical and marketing contacts, primarily in the United States, including its shareholder group.

b. Organizational Structure

LAAD presently consists of Latin American Agribusiness Development Corporation, the parent corporation, and two subsidiary corporations - LAAD de Centroamerica, S.A., (LAAD-CA), located in Guatemala City, and LAAD Marketing Company, Inc., (LAAD/M), located in Miami. All three companies are incorporated in the Republic of Panama. (LAAD is also affiliated with certain specialized service companies in fields complementary to its agribusiness activities, e.g., Flores International Corporation, and Remote Sensing Engineering, Ltd.)

The present authorized capital of LAAD is \$15.0 million, consisting of three thousand shares of common stock of \$5,000 par value per share. As of April 30, 1975, 600 shares of common stock were issued to investors for a total paid in capital of \$3.0 million. Each shareholder purchase has been for \$200,000 (40 shares) of LAAD stock. All voting rights in the corporation are vested exclusively in the holders of the common stock, with one vote

for each share held. There are 16 Directors of LAAD, one from each of the shareholding institutions and the president of LAAD. Each Director is a high level officer of the shareholding institution he represents. The Board of Directors meets quarterly to consider project status reports and to discuss policy issues. A Loan and Investment Committee meets periodically to review financing proposals submitted to LAAD for amounts over \$100,000. For financing requirements below that level, the president of LAAD has discretionary approval to commit the resources of the corporation for eligible projects.

LAAD-CA was incorporated in the Republic of Panama on November 9, 1971, to make investments in private enterprises to improve the production, distribution, and marketing of agricultural based products in the Central American countries of Guatemala, El Salvador, Honduras, Nicaragua, and Costa Rica. LAAD has purchased all of the \$2.0 million authorized Class A common stock of LAAD-CA, sold exclusively to LAAD. Class B common stock, identical to the original Class A stock, except that the par value of the 10,000 shares authorized is \$100 as compared with \$1,000 par value for the Class A, was authorized in January, 1973. Of the presently authorized Class B stock, 500 shares have been issued to a company in Honduras.

LAAD/M, a wholly-owned subsidiary of LAAD, was incorporated in Panama on January 29th, 1974, to provide marketing and other related services to agribusiness enterprises.

The two key officers of LAAD are the President, Robert L. Ross, and the Vice-President, Thomas W. Mooney (See Annex V, Exhibit 2 for Bio-data.) Presently, LAAD and LAAD-CA are more or less the same organization in that there is a degree of functional overlap between LAAD and LAAD-CA and the delegation of responsibilities and duties stem mainly from geographic location: LAAD is close to its shareholders, U.S. markets, and sources of technical expertise; and LAAD is close to those projects comprising LAAD-CA's present portfolio (in effect, there are no LAAD projects outside of Central America at present) and the regional markets.

Personnel at the Miami office of LAAD consists of the President (Ross), a Treasurer/Secretary, and a secretary. Personnel of the LAAD-CA office consist of the Executive Vice-President of the subsidiary (Mooney) and three support personnel --- project development analyst, credit officer, and a comptroller.

LAAD/M staff consists of a marketing specialist, an accountant, and a secretary.

## 2. Origin of the Project

In 1970, discussions were initiated between AID's Regional Office for Central American Programs (ROCAP) and LAAD concerning the possibility of a joint project in agribusiness development, eventually resulting in consideration and approval by AID of a \$6.0 million loan (596-L-011) for agribusiness project development by LAAD in the five Central American countries. Prior to that time, LAAD, using its original equity capital and borrowed funds, had engaged in short term commercial paper financing.

As required under the approved AID-LAAD project, LAAD established a subsidiary (LAAD-CA) to conduct agribusiness development activities in the Central American countries and to eventually market its own shares to interested Central American investors. By January, 1975, the \$6.0 million AID loan, matched by \$2.0 million of LAAD equity was fully disbursed, providing required financing through either straight traditional term loans, convertible debentures, or equity investments, to a total of 52 projects.

During 1974, discussions between AID and LAAD were undertaken to consider possible additional AID assistance to LAAD for a consolidation and expansion of the Central American operations and an expansion of LAAD activities into a new area, the Caribbean. To this end, an IRR proposing AID assistance in the form of a \$12.0 million loan was reviewed by the LA Bureau DAEC. Following development of a further financial analysis and justification of the proposal, DAEC approval was given on January 22, 1975, for development of a project loan in the range of \$9-10 million for the combined project objectives. The intensive review for both the Central American and Caribbean elements was in process, when a substantial reduction in FY 1975 appropriations from expected levels required that the LA Bureau reconsider the intensive review approval for the proposed \$9-10 million loan.

Although the preferred course was to develop the project as a single proposal, the fact that LAAD did not have other financial resources available to finance continuing agribusiness development activities (the combined LAAD/AID funds of the first project were fully disbursed by mid-January of 1975) and was therefore essentially engaged in a "housekeeping" rather than expansion activity, presented a strong argument for separating the two geographic area programs. Based on these considerations, and the availability of limited funding authority, a Capital Assistance Paper was prepared for AID/W review recommending a \$5.0 million loan to LAAD for LAAD-CA consolidation and expansion (CAP AID-DLC/P-2078). That loan was authorized in early June 1975.

Subsequently, the possibility of additional FY 1975 funding authority becoming available allowed the LA Bureau to re-authorize the intensive review of an AID/LAAD project supporting LAAD's proposed agribusiness development activities in the Caribbean region.

3. Evaluation of Project Experience to Date

a. Purpose of First Loan

The purpose of the first AID loan to LAAD was to assist LAAD in providing long-term financing and technical assistance to agribusiness projects in Central America and to support efforts to develop the basic mechanics of a capital market in Central America. The AID/LAAD project was expected to contribute to the promotion, development, and expansion of Central American agribusiness enterprises as a total interrelated process. LAAD would identify deficiencies in the food supply systems where capital, management, training, and technical and financial assistance could be productively applied with emphasis on non-traditional export industries.

b. Measures of Performance

The implementation procedures utilized under the first AID loan enabled AID and ROCAP to continuously monitor the progress of goal and purpose achievement of the project. In addition to almost daily contact between ROCAP and LAAD, that process called for (a) ROCAP approval of all sub-projects financed under the project exceeding

\$200,000; (b) one million dollar disbursement reviews of all projects; (c) monthly status reports. In addition, audited yearly financial statements of the corporation and an annual audit of compliance with the loan agreement were reviewed. An AID audit was conducted in mid-1974 which confirmed that loan objectives were being achieved. Additionally, under AID/W initiative, Checchi and Company performed an independent evaluation which reconfirmed that the project was reaching many of its objectives.

c. General Findings

The recent Capital Assistance Paper AID-DLC/P-2078, "ROCAP-LAAD Agribusiness Development," describing the proposed \$5.0 million loan to LAAD for the LAAD-CA program, presents a detailed evaluation of LAAD's performance under the first AID loan. The conclusion of that evaluation was that "LAAD has, with one exception -- that of capital market development -- been able to meet its goals in an exemplary manner." That conclusion also obtains for this Capital Assistance Paper as justification for presenting a proposal for additional assistance to LAAD for expansion into the Caribbean area. A summary of the highlights of the section on "Performance Evaluation" of the recent ROCAP CAP is presented below.

d. Specific Findings

Information and experience provided through the above enabled the following conclusions to be drawn:

i. That the project contributed to the strengthening of LAAD leading towards eventual self-sustaining operations

LAAD's net consolidated earnings for the fiscal year ending October 31, 1974, rose to \$152,000, equal to a 5.3% return on net worth. Sales by LAAD of additional stock to new equity investors, a necessary activity if LAAD is to become financially viable over time, will be slow until LAAD's return on net worth reaches or passes a 10% average. LAAD is making satisfactory progress in advancing toward that goal.

ii. That LAAD had promoted, financed, and implemented Central American Agribusiness Enterprises.

Project records confirmed that the AID/LAAD project had contributed \$8.0 million to the financing of 52 Central American projects in the agribusiness field.

iii. That LAAD encouraged and assisted in the development of new, non-traditional products.

Examples of LAAD's activities in this regard are projects involving: cardamon oil, ferns, specialized frozen vegetables, new cattle breeds, wooden furniture, wood components, turkeys, and lean sausages.

iv. That LAAD's approach emphasized agribusiness development as a totally interrelated, systems process.

The Performance Evaluation (Annex VIII) presents examples of the manner in which LAAD analyses projects in terms of their contribution to the development of more efficient agribusiness systems, addressing specific deficiencies or bottlenecks in business flows from producers through processors and distributors to the final buyers. The conclusion is that LAAD has sought out and promoted businesses which are attempting to solve such problems in various agribusiness industries.

v. That LAAD has emphasized the development of non-traditional products and exports.

Approximately 50% of LAAD investments under the first project were in support of export-oriented companies. Foreign exchange earnings generated by LAAD-supported projects under the first use of the \$8.0 million total project resources are expected to reach a total of \$27 million annually, roughly equal to \$3.4 for every dollar committed by LAAD. During the full life of the AID loan, up to \$100 million in new foreign exchange should be generated annually by LAAD financed projects.

Also, LAAD financed projects established a special subsidiary, LAAD Marketing Company, Inc., to provide marketing services to clients of LAAD and other exporters of agricultural-based products who are interested in selling their products in the U.S. or Canadian markets.

vi. That LAAD provided technical assistance to projects that it financed.

Technical assistance supplied by LAAD to its clients was provided essentially in one of three methods: 1) directly by LAAD to companies LAAD specifically promotes and underwrites; 2) directly (or indirectly) to its clients from the expertise and experience of individual stockholders; 3) directly to a client by another LAAD client.

vii. That LAAD provided a substantial amount of equity financing to sub-projects it promoted.

LAAD investments in sub-projects included the following: three common share equity investments, five convertible preferred share investments, and twenty loans with options to convert all or a portion of the principal amount into common shares. Aggregate value of these investments is almost \$5.2 million.

## B. DETAILED DESCRIPTION

### 1. Goals and Purpose

#### a. Goals

The goals of this project are to benefit the poor in areas where LAAD operates and to contribute substantially to the promotion, development, and expansion of agribusiness systems and enterprises in the Caribbean and Latin American North Coast area. The primarily non-traditional agribusiness enterprises to be promoted under this project will result in the creation of substantial new rural employment and increased income opportunities, thereby benefiting the rural poor. Achievement of the project goal will be possible through an approach of identifying and addressing deficiencies and constraints in agricultural production, processing, distribution, and marketing systems and the selected application of capital, management, training, and technical and financial assistance to improve the functioning of elements of those systems. To this end, LAAD will provide these specialized resources to entrepreneurial "opportunities" in agribusiness which offer maximum potential for beneficial economic impact on a priority target group composed of small farmers and landless workers. This project goal is consistent with AID guidelines, the Congressional "mandate," and the development objectives of those countries to be included in the project's regional focus for improving and diversifying agricultural production and rural development.

In terms of impact, the project will produce: 1) additional employment opportunities, particularly for rural small farmers and unskilled or semi-skilled rural labor in agroindustries; 2) increased incomes to members of the above target group; 3) technical assistance and technology transfer, new ideas, management methods, production technologies, business relationships, advice and assistance to sub-projects on a continuing basis, 4) increased production and productivity; 5) expanded marketing opportunities; 6) new product development; 7) increased foreign exchange earnings; and 8) increasingly efficient agribusiness industry systems.

#### b. Purpose

The purpose of this project is:

- i. to support the expansion of LAAD's agribusiness development activities into the Caribbean and the Latin American North Coast area, and thereby,

ii. to contribute to the evolutionary development of LAAD as an agribusiness development organization with a geographical base and focus of operations sufficient in size and scope to facilitate operating economies of scale and to attract expanding shareholder and affiliate participation in LAAD programs.

By the end of the project, LAAD will have established a substantial portfolio of lending and investment operations in the Caribbean and North Coast areas. This base, together with the operational base LAAD will have established in the Central American area as a result of earlier AID assistance, will enable LAAD to mobilize additional resources necessary for continued growth and replacement of AID concessional assistance through a combination of internal generation of funds and obtaining of long and medium term commercial debt. LAAD will also have increased the numbers of affiliated companies providing essential services to LAAD clients for the distribution and sale of production in foreign markets.

Specific targets for the above are:

(LAAD's Fiscal Year ends October 31st)	i. From final date meeting CP's 6/30/76- 10/31/76	ii.	iii.	iv.
		11/1/76 to 10/31/77	11/1/77 to 10/31/78	11/1/78 to 10/31/79*
<u>LAAD Caribe (Subsidiary)</u>				
Equity Capitalization	300	800	1,300	2,000
Long-term loans (AID)	800	2,300	3,800	6,000
Total Investment Portfolio	1,045	2,915	4,770	7,570
Net Income	(60)	(80)	5	(5)
<u>LAAD (Parent Co.)</u>				
Net Income	190	300	825	875
Return on Net Worth (%)	3.8	4.8	7.7	6.3
<u>LAAD Marketing Co.</u>				
No. Of New Affiliations	-	1	1	1
(*) AID loan disbursements to be completed by 5/30/79				
2. <u>The Target Group</u>				

The priority beneficiary of the proposed project is the rural poor in the areas where LAAD operates. This group is composed of rural landholding small farmers and landless workers; where feasible or already existing, rural poor who operate or have the capacity to operate small agribusiness supplying products or services may also be beneficiaries.

To reach the target group, the project will assist an intermediate group of agribusiness entrepreneurs who will establish operations which will benefit the rural poor. Certain kinds of sub-project activities (e.g., installation or expansion of a canning plant) will encourage landholding small farmers in the area to increase or diversify production in order to supply raw materials or unprocessed agricultural products to processing facilities or related marketing entities, such as cold storage or packaging plants. Landless workers, or farmers whose landholdings are inadequate for reasons of size, quality, or location, will find employment in rurally located production or processing operations. Through such activities their efforts are expected to be more productive than their traditional methods, and employees of such rural agribusiness operations, both laborers and clerical workers, will be taught valuable new skills in agriculture or business operations. Where feasible (possibly in Haiti) LAAD may develop a program of financial and technical cooperation with an existing banking system with branches in rural areas for support to small scale rural agribusinesses operated by rural poor.

### 3. Description

#### a. Concept

A major LAAD objective (and a goal of this project) is to replicate its Central American experience in other Latin American countries. An early theme of LAAD's approach to agribusiness development was that the requirements of agribusiness are similar throughout the developing world. The interdependence and vulnerability of most agribusiness activities, particularly in the case of the small and medium sized producers and particularly those in the developing countries, require that for successful operations a total or integrated approach to the industry must be taken by the agribusiness managers. The physical and service infrastructures, taken for granted in technically advanced economies, are typically inadequate or non-existent in developing countries. The particular critical issues which restrain or limit agribusiness development vary from industry to industry, country to country, and company to company. Perishable commodities processed into consumer products, shipped by unreliable means of transportation through a fragmented distribution system in a market noted for price instability and shifting consumer preference, offer an inhospitable environment for the independent small and medium sized agribusiness company in the developing countries.

Today's international markets nevertheless offer opportunities to export non-traditional processed and semi-processed agricultural products. Because of the size and complexities of marketing internationally, many Latin American producers are not taking fullest advantage of their export potential. Most producers of agricultural products do not individually control the volume necessary to serve today's international mass markets. However, much can be done to link these producers to their markets, such as through multi-producer marketing companies which can distribute the output of several production sources. Other methods are also available which encourage a more integrated approach to international marketing opportunities. LAAD places high priority on export-oriented agribusiness industries and actively works with its clients in organizing and improving their export marketing arrangements.

Three years of intensive effort by LAAD at developing agribusiness projects have demonstrated the validity of its particular approach. In Central America, LAAD is pioneering an integrated farm to market approach to a variety of agroindustries including the floral, beef, vegetable, and wood industries, with a heavy emphasis on the important element of developing better and expanding marketing arrangements, both domestic and international, for agricultural production.

The challenge presented in this project is to replicate the Central American experiences in the Caribbean and the Latin American North Coast areas. This undertaking and the Central American program will be mutually reinforcing, promoting inter and intra-regional trade and exchange of experience. It will also allow LAAD to extend more effectively those complementary services it now provides to its clients in the fields of marketing, technology, and finance.

While it is the purpose of this section to indicate the substantial contributions the LAAD approach can make towards general agribusiness development, it is essential to emphasize that a company the size of LAAD cannot pretend to fill all the gaps nor solve all agribusiness problems, even in the smallest of the Latin American countries. However, by focusing on key industries in a given region or country, LAAD can realistically build itself up to a position of leadership in expertise in these industries, not for the purpose of domination or control, but to provide the kind of entrepreneurial assistance and the business services that allow the independent producer to grow to the point at which he is able to make his way alone. To the extent that the industries chosen by LAAD

are dynamic and with long term growth potential, then LAAD could achieve a significant impact with a modest amount of funding.

The relative impact of LAAD's operations under the first AID/LAAD project for Central American operations is significant and is growing. The following are general indicators of that impact based upon projections to 1976 (all are incremental changes from the date of disbursement):

Employment	:	5,800
Foreign Exchange Earnings (Annual)	:	\$27.0 million
Outside Funds Mobilized	:	\$11.2 million

This impact is based on cumulative disbursements to completing the earlier \$8,000,000 (\$6.0-AID; \$2.0-LAAD) program. The total impact of that project would be roughly three times this amount. Essentially similar results are expected from the proposed LAAD operations in the Caribbean and Latin American North Coast areas. Since the industries identified in these areas are similar to those in LAAD-CA's portfolio. (See PART III, B, Economic Analysis).

A central concern of this project is to expand LAAD's development operations to the point that it can become commercially viable and self-sustaining. LAAD has produced tangible results since the first AID loan agreement was signed, but LAAD is still not commercially viable. For this it must: a) consolidate its position in Central America; b) develop a meaningful program in at least a representative number of other Latin American countries; and c) earn a reasonable return on its equity. The recently authorized second AID loan to LAAD for LAAD's Central American operations (\$5.0 million) provides resources to deal with the consolidation and contributes to LAAD's ability to earn a reasonable return on equity. The proposed project will address the objectives of LAAD's geographic expansion and assure the accomplishment of its long-term financial viability and growth.

#### b. Geographic Priorities

It has always been a major premise of LAAD that it should and would cover a representative area of Latin America. To the extent that its operations deal satisfactorily with AID's developmental priorities, it is in AID's best interest that this occur. In 1971, LAAD made three loans and investments, two in Mexico and one in Panama. Project opportunities in Venezuela were given serious consideration but were rejected for lack of viability. LAAD established

an office in Mexico City, where a number of projects were developed. LAAD's management concluded, however, that it did not have sufficient financial resources to sustain two operations (80% of LAAD's capital was committed to the AID-LAAD Central American program), and it therefore decided to concentrate all efforts on making LAAD-CA a success. It closed the Mexican operation. LAAD's decision to cease operations in Mexico was a difficult one, since this meant reducing the company's geographic scope.

Looking to the future, LAAD plans to expand carefully into areas which offer development opportunities in the agribusiness field for a company of its size and operational approach.

The most logical countries would be small and medium-sized Latin American countries with agricultural potential. The areas which would best fit these two criteria are the Caribbean countries and the Andean ones along the Pacific Coast. The first priority area for expansion is those countries of the Caribbean. Despite the growth of tourism and manufacturing industry in these countries agroindustry remains the largest sector, particularly when measured in terms of employment and generation of foreign exchange.

Specific investment conditions vary according to the country and LAAD will take them into account when selecting the first priority countries. Expansion must necessarily be carried out by stages. Based on present conditions, the next logical step would be to expand into the Caribbean basin area, including Belize, Dominican Republic, Haiti, Jamaica, Panama, Colombia, and the British island territories, including Barbados.

Unlike Central America, the Caribbean and Latin American North Coast area is heterogeneous in terms of language, culture, government policies, economic structure, and potential. Because of these differences, the project would focus first on those with the greatest potential including the Dominican Republic, Haiti, Jamaica, Panama, and Colombia. A brief evaluation of each country's potential is presented in PART III, B.- Economic Analysis.

#### c. Organization and Management of the New Subsidiary

Following upon the experience under the AID-LAAD-CA program, a separate subsidiary of LAAD, to be known most probably as LAAD Caribe, will be formed. Its management

and organizational structure will be patterned after that of LAAD-CA, with staffing composed of qualified professionals resident in the region. More important than professional skills alone, LAAD believes, is the capability to structure and implement feasible projects which can only be enhanced by full-time resident field staff living and working in the areas of operations.

LAAD Caribe will be incorporated in the Republic of Panama in a manner similar to LAAD-CA. The new company's Articles of Incorporation and By-Laws will be submitted to AID for approval prior to incorporation. Legal incorporation of this company will be a condition which must be met before any disbursement by AID under the proposed loan will be made.

LAAD Caribe will be a limited liability corporation with an initial authorized capital of US\$3,000,000 of which \$2,000,000 will be subscribed by LAAD itself. Another condition preceding disbursement will be a resolution from LAAD's Board of Directors subscribing \$2,000,000 of LAAD Caribe's capital.

Assuming that the loan agreement is signed before the end of December at the latest, all prior approvals and the incorporation of LAAD Caribe could be completed by the end of March, 1976.

LAAD has agreed to make available common voting stock in LAAD Caribe to investors in the Caribbean and Colombia. However, LAAD Caribe's earnings are not expected to reach a level high enough to attract private Caribbean investors until several years after the AID loan is completely disbursed.

In order to manage the new operation, LAAD Caribe will establish two offices in the Caribbean area. It is expected that one office will be set up in Santo Domingo, which is geographically well located to serve the Caribbean and communications are reasonably effective. There are no significant legal or tax obstacles to locating in the Dominican Republic for a regional operation. This office would have operating responsibility for the entire Caribbean operation, with the exceptions of Panama, and possibly Belize, which, because of their contiguity to Central America, would be managed by the LAAD-CA office in Guatemala.

The Santo Domingo office would be staffed initially by one professional manager and a secretary operating out of a rented office. The manager would be a person with prior experience and knowledge of the Caribbean. To the extent possible, he will have had both financial and development experience. He will be assisted by LAAD's Miami office, which has already identified over 20 projects

in the Caribbean. This manager would be hired shortly after LAAD Caribe is formed and prior to any disbursement under the loan. AID will be consulted prior to hiring the Caribbean manager and will have the right to approve him.

Once sufficient projects have been added to the pipeline, a qualified financial analyst will be added to the staff no later than early 1977. Additional managerial and professional staff will be added as required by the volume and nature of LAAD Caribe's project work expands.

The senior executive will report directly to the President of LAAD on matters of policy, project proposals and personnel. He will handle day-to-day operations himself and report on them as needed. Investment approval authority will be vested with the President of LAAD in amounts up to \$100,000 and with authority for larger amounts vested in the LAAD Investment and Loan Committee. This is the present system used by LAAD-CA. A local discretionary authority on loans and investments up to a predetermined amount would be extended, once sufficient experience had been accumulated.

A field office will be established in Bogota to develop the program in Colombia. It is possible that this office will be started with a part-time professional who would be hired on a full time basis, once the number of projects so warrants. This man would probably be hired at about the same time as the manager in the Dominican Republic. He would also be a person with financial and developmental experience in Colombia and in all probability would be a Colombian national. AID would also have the right to approve this officer.

Major responsibilities of the LAAD Caribe subsidiary would be:

i) Project Identification

Primary responsibility for identifying new projects will rest with the resident staff of the subsidiary. There is no systematic method to be followed to identifying projects. Familiarity with the area, frequent travel, and an eye for opportunities are the key ingredients for this purpose. LAAD's President, Robert L. Ross, will be personally involved in the development of the subsidiary.

ii) Project Analysis

Project analysis is an important element of LAAD's work. Good analysts are difficult to find, a fact fully recognized by LAAD. Since LAAD-CA already has sufficient analysts, LAAD is giving some thought to trans-

ferring one of them to the new subsidiary. (The transfer of one analyst from LAAD-CA would be done only after LAAD-CA's staff has been strengthened, in accordance with the requirements of the recently approved AID/LAAD-CA program).

iii) Project Negotiation

The negotiation phase of the work is the most critical one, requiring an experienced resident businessman with a financial background. Although the shareholders and the Head Office will provide maximum assistance, the success of LAAD's negotiations with its clients will depend fundamentally on the senior resident executive.

d. Taxation and Legal Considerations

In all instances, LAAD will be subject to local laws, including registration, taxes, and all restrictions on foreign investment. LAAD believes it can live with these restrictions because its investment policies favor local control and ownership of its projects. Both Colombia and the Dominican Republic have placed limitations on dividends to foreign shareholders to a net after-tax payment of about 14% annually on the original investment. Foreign investments are subject to registration and approval by the two countries. Both countries tax interest payable to foreign lenders, but this tax is customarily waived for loans to projects of importance for the country's economic development. No important restrictions on the dividends or capital gains earned by foreign entities are present in Haiti, Jamaica, Belize, or Panama.

e. Investment Climate

With the possible exception of Guyana, all countries eligible under this proposed program encourage private investment, domestic and foreign, in those activities considered of high priority by the planning authorities of the host country. In all countries, agriculture and related industries are being given the highest priority particularly when the activity is non-traditional and provides significant rural employment. (See Section III, B - Economic Analysis.)

Some countries, such as the Dominican Republic, Jamaica, and Colombia, carefully control foreign investment. In LAAD's case, however, its policy of taking minority equity positions is consistent with these concerns.

Worthy of note is the fact that two investment corporations engaged in industrial and to a certain extent agricultural development have made and are continuing to make, substantial investments in the region covered by the proposed loan. ADELA has 19 investments, totalling \$8,549,000 in Colombia, the Dominican Republic, Jamaica, and Belize. Although many of these projects involve equity participations in development banks (principally in Colombia), the ADELA portfolio includes agricultural or agribusiness investments in each of the four countries.

A similar picture characterizes the activities of the Commonwealth Development Finance Corporation (CDFC), which as of the end of 1973 had placed a total of \$9,636,751 in 18 projects in Jamaica, Trinidad, the Cayman Islands, the Bahamas, Barbados, and Belize. Although the CDFC's Bahaman, Barbadian, and Trinidadian investments are in the hotel/condominium and industrial areas, its Jamaican, Cayman, and Belize portfolios contain agricultural projects.

Both institutions know LAAD and speak enthusiastically of its future in the Caribbean. Both have specific projects in mind in which they would like to collaborate jointly with LAAD. In short, the investment climate in the Caribbean region, including Colombia, appears favorable for the type of operations envisaged in the proposed loan.

#### 4. Development Assistance

Under the proposed program, LAAD will expand its development services (technical, marketing, promotional, and managerial assistance) into the Caribbean and Colombia.

##### a. Technical Assistance

A complete description of the technical assistance provided by LAAD and its shareholders in Central America is contained in Section II D. of LA/DR-DAEC/P-75-7/2 (pages 32 through 38). This assistance would be extended through LAAD Caribe on a similar basis. LAAD shareholders would not charge for their technical assistance.

It is expected that more assistance will become available from LAAD-CA's portfolio in Central America. Despite the absence of any program in the Caribbean, LAAD has already had occasion to draw on its Central American clients to help projects in the technical field.

Examples of this include a medium-sized Dominican slaughterhouse which was having layout and organization problems with a major plant expansion. LAAD arranged for the Dominican owner to visit one of LAAD-CA's clients in

Costa Rica (Taylor & Associates), which provided technical assistance and also sent senior management to the Dominican slaughterhouse to provide on-the-spot advice. No charge was made for this service.

Another example was a new cut-flower farm in the small town of Picndomo near Popayan in the Cauca Valley of Colombia. This farm was the first one to be established in this climate, and LAAD arranged for one of its clients in Costa Rica (American Flower Corporation) to visit the new farm while it was still under construction. The Colombian sponsor also visited the Costa Rican farm, which is probably one of the best organized and managed in the area. This technical exchange allowed the Colombians to avoid certain start-up errors.

Other industries where technical assistance can be provided by LAAD's clients in Central America are processed fruits and vegetables, essential oils, cattle breeding, ornamental plants and poultry.

#### b. Marketing Assistance

LAAD's marketing services will be a critical input during the promotional and operational phases of new projects. A realistic market assessment is critical to any promotional effort. This assessment must go beyond the conventional market study and must be based on a more direct understanding of how markets work in practice.

An example of this is a pimento oil project now being promoted by Jamaican entrepreneurs (with a majority control) and the ADELA Investment Company (a LAAD shareholder). The sponsors have asked LAAD to co-sponsor the project. LAAD's primary responsibility will be to evaluate the market and to recommend the best method of distribution. To do this, LAAD will use its experience with the Guatemalan essential oil industry, which has an efficient marketing arrangement in the United States and Europe.

Once a project enters its start-up phase, its products must be introduced into international markets. Typically, the volumes shipped by a new company are inefficient to compensate for the pioneering marketing effort required. Again LAAD is specializing in introducing non-traditional agricultural exports abroad and is prepared to absorb the costs of assisting new companies to penetrate overseas markets. AID funds would not be used to finance any losses incurred by LAAD in its marketing work.

c. Project Promotion and Development Assistance

A third service is project promotion and development, essentially entrepreneurship. Many of the projects already identified in the Caribbean and Colombia will require considerable assistance of this nature before they can be carried out. In order to do this, LAAD Caribe will draw on LAAD-CA's experience, as well as on that of LAAD's shareholders. This service will be relatively more important in the Caribbean area, where entrepreneurial ability is scarcer than in either Colombia or Central America.

d. Management Assistance

Finally, LAAD Caribe will offer agribusiness management services, particularly for turning around companies in financial distress. It has been LAAD's experience with new agribusiness ventures that they often lack sufficient capital to cope with the associated risks of high start-up losses and unanticipated working capital needs. Typically, these problems result from inadequate management rather than mere financial oversight. LAAD is being asked to play a key role in turning around troubled companies. This growing demand for LAAD's managerial talents in Central America will be extended at an early stage to the Caribbean, where managerial ability is scarcer than in Central America.

An example of this is a Dominican mushroom canning company, which, although it received generous financing from public and private sources, was inadequately capitalized. It is having management and technical problems, and LAAD has been asked to participate in its restructuring. LAAD's talents are particularly appropriate in this instance, since its management has had experience with mushroom canning companies in Central and South America, and two of LAAD's shareholders are involved in the growing and canning of mushrooms (Castle and Cooke, and Ralston Purina).

5. Project Selection Criteria

As noted earlier, the goals of this project are to benefit the rural poor in areas where LAAD operates and to contribute to the development of agribusiness enterprises and systems in the Caribbean and Latin American North Coast areas. Therefore, within this context, and to ensure that the sub-projects LAAD finances conform not only to normal economic and financial criteria but are also responsive

to the areas of priority concern to AID (increased food production, employment, and rural farm income) and generally maximize benefits to the target groups, sub-project selection criteria and a screening system for these criteria have been developed.

All LAAD sub-projects must, by definition, be involved in an agribusiness-related activity. In addition, sub-projects will be required to meet the following criteria:

a) The proposed project must contribute to the welfare of the rural poor/small farmer target group.

The degree to which this criteria is met may be measured, non-exclusively, in terms of increased employment generated, increased income generated, increased production and/or productivity, induced changes from lower to higher value crops or better land utilization, and general rural development effects which the activity is projected to produce at maturity.

b) Contribute to the development or improvement of an agribusiness system.

To satisfy the thrust of this criterion, the proposed project must demonstrate that it either eliminates a systems bottleneck, that is, it adds a critical component in the production-transportation-processing-distribution-marketing-retailing steps which characterize the agribusiness process, that it introduces a new non-traditional product into this process, that it produces a new or expanded market penetration, that it assists LAAD in better performing this systems development role, or that it produces systems efficiencies. The degree to which the project contributes to this objective may be measured in terms of the increased production, commodity price stability, or value added.

An additional measure of the project's importance will be its ability to contribute to the overall economic improvement of the country or region. To measure a project's projected achievement of this objective, one may analyze a) its balance of payments effect, (i.e., the foreign exchange earnings it generates or the foreign exchange saved through import substitution), b) the value which the project will add to raw or semi-processed commodities, c) the increased employment and consequent income added to the economy, and/or d) the increased production (whether from new or present agricultural commodities) and the implication for future medium-to-longer term industry sector growth.

A review by the Project Committee of the goal and purposes of the project, LAAD/CA experiences, and the illustrative list of LAAD/Caribe sub-projects indicated that eligible LAAD/Caribe agribusiness sub-projects could be grouped and classified into two basic categories for purposes of assessing a sub-project's target group impact: a) activities whose impact on the target group is primarily characterized by the creation of substantive direct employment generation effects (e.g., significant numbers of jobs in company plants and/or on company managed fields, etc.) resulting in increased income generated; and b) activities which, while also creating employment opportunities for the target group of the above description, primarily benefit the target group in an indirect manner through the creation of increased marketing opportunities, which ultimately result in increased income from the sale of new or increased amounts of goods or services produced in response.

For Category "A" (Direct Employment), the Project Committee selected as the objectively verifiable criteria of screening a ratio of total incremental fixed investment per job created not to exceed a maximum level of \$7,500, and the determination that members of the target group are expected to be priority beneficiaries of the new jobs. Given the scarcity of illustrative, much less definitive, data on such a ratio as it would apply to the diverse types of sub-projects contemplated for LAAD/Caribe operations, the Project Committee's recommendation is not considered final; however, the maximum figure of \$7,500 (adjustable for inflation) was selected based on the judgment of economists and engineers with some experience in agribusiness projects that the most appropriate range for this ratio was between \$5-10,000 as well as the analysis of data from other AID projects described below. This figure is expected to allow LAAD/Caribe to produce results at least as favorable as those

of LAAD/CA's projects which have, on the average, created one job per each \$3,300 of LAAD/CA investments.

The level recommended will not eliminate from selection numerous desirable projects with slightly higher rates than the expected average which should be considered for financing on the basis of other factors (e.g., location in area of high unemployment, development of new product or service with high growth potential for creating increased employment - demand for raw materials, etc.) and which, when grouped with sub-projects with much lower ratios (e.g., cut flower growing; seed production operations), will produce an acceptable average figure.<sup>1/</sup>

Further, LAAD's concept of promoting new and innovative technological approaches to agribusiness operations where the potential effects on a product or step in the agribusiness system promise to be significant, could be severely curtailed by the application of a ceiling level much lower than \$7,500. Such activities, as for example, the testing and use of hypobaric transfer and storage systems and the promotion of an air transportation system to deliver perishables to distant markets, will not produce immediate or large direct or indirect target group impacts, but would hold the promise of releasing existing constraints on increased agricultural production if the concept proves practical and viable. Initially, however, these activities involve somewhat more capital per job created than do other, more traditional agricultural-agribusiness activities as a tomato production and processing operation. Nonetheless, the potential benefits to the target group from such activities argues strongly for allowing scope for LAAD's promotion of them in its overall efforts.

Additionally, the recommended level was chosen recognizing that to attempt to restrict LAAD financing only to sub-projects more closely meeting the average expected level would effectively constrain the LAAD/Caribe subsidiary from meeting its cash flow and income projections, objectives which are essential if LAAD is also to achieve the project purpose of financial viability within the period projected, since sub-projects with such low ratios are more the exception than the general rule and would require more extensive project development efforts and lead times to identify and implement.

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<sup>1/</sup> The sub-project additionally must satisfy agribusiness systems development, rural development, economic benefit and food production criteria.

Support for the Project Committee's selection of the \$7,500 ceiling can be found in a study by A.D. Little Inc., of the Bolivian industrial sector which indicated the average figure for fixed capital invested per wage-earner was \$5,863 in 1970.<sup>2/</sup> This figure was cited in Capital Assistance Paper AID-DLC/P-1012, Bolivia, Special Fund for Economic Development, as the basis for calculating expected employment generation effects of that project.

Additionally, a 1971 Capital Assistance Paper, AID-DLC/P-993, Brazil-Northeast Small and Medium Industry Development, cited current Brazilian experience under a special fiscal incentive program (known as the 34/18 system), where approved projects requiring \$1.4 billion of investment were estimated to generate directly 154,000 new industrial jobs, producing an average figure of \$9,000 per job created. This figure is based on the high side since most of the "34/18" investment was in relatively capital intensive enterprises, and in fact was so encouraged by the "34/18" system. On the other hand, under an earlier Brazilian program of assistance to small and medium industries cited in the same paper, the average cost per job created was \$2,312.

Typical LAAD/Caribe sub-projects will not be characterized by either of the two extremes in the Brazilian example: they will neither be largely capital intensive, nor totally labor intensive. While LAAD's focus is on agribusiness projects and medium-to-small sized projects will be most numerous in its expected portfolio, the company does not and cannot focus exclusively on "small and medium" size operations in that sector, given its overall objective of seeking and promoting agribusiness opportunities wherever they are found. Therefore, an average figure of incremental investment per job created by LAAD financing falling within the two figures of \$9,000/\$2,312 will probably be characteristic. If, although admittedly an arbitrary assumption, the mid-point of that range is selected, the average figure would be \$5,701. That figure compares favorably with the A.D. Little figure for Bolivia of \$5,863. Assuming an inflation factor of 35 percent since 1970-71 (a very conservative figure) produces an average figure of approximately \$7,600.

Accordingly, setting as a maximum or ceiling (not average) figure of cost per job for LAAD/Caribe projects of \$7,500 appears justifiable in the absence of more conclusive data on the particular range of agribusiness projects otherwise eligible

<sup>2/</sup> Arthur D. Little, "Existing Industry in Bolivia," Volume 3, Table 6, p. 21.

for LAAD assistance. Again, it is worth noting that the final average figure of all LAAD subprojects is expected to be significantly below that level.

For category "B" (Indirect Benefits), the Project Committee recommends that a LAAD-selected subproject with such primary target group characteristics must satisfy the following criteria: 1) the development, processing, or handling of typical small farmer crops; 2) location of the plant or operation in an area where substantial members of the target group are found; and 3) the demonstration of one or more approved methods/linkages of assuring the active involvement of members of the target group in the subproject's economic activities. Additionally, the Project Committee recommends that LAAD/Caribe's borrowers include a "best efforts" clause obliging the sub-borrower to maintain the characteristics which provide significant target group impact during the duration of the LAAD investment in the activity.

As a definition of typical small farmer crops, the Project Committee recommends that any crop, in any country, and in any region, the majority of which (51 percent or more) is produced by small farmers, be considered eligible. In the vast majority of expected or likely situations, this will be satisfied by a project proposing the development or processing, etc., of fruits and vegetables, with the exception of bananas, pineapples and citrus fruits.<sup>3/</sup> However, there are also instances of exceptions to the fruit and vegetable definition, as in the case of coffee, grown predominantly by small farmers in Haiti, and possibly cut flowers, which could be grown by small farmers in certain areas if marketing opportunities were increased. There appears to be widespread acceptance of this definition and agreement on its ease of verification. An essential assumption in choosing this criterion is that the cultivation of what constitutes a typical small farmer crop is commonly produced on smaller plots, in modest quantities by each producer, does not necessarily involve mechanized equipment for cultivation or harvesting, is generally labor intensive, but does not involve highly sophisticated agricultural techniques or substantial capital investment.

Concerning the sub-criterion of small farmer/target group linkages with the sub-project, the following illustrative and comprehensive, but not exhaustive, list of means which would provide verifiable assurance of the integration of small farmer/target group members into the agribusiness activity is recommended for LAAD/Caribe use. LAAD's analysis

<sup>3/</sup> Except in individual cases where it can be shown that small farmers produce the majority of production of these items. However, in such instances, LAAD would be required to seek prior AID approval.

of the sub-project proposal would be required to affirm that one or a combination of these linkages was planned to be incorporated into the sub-project.

1. Contract buying by agribusiness (forward sale of crop by target group).
2. Special price incentives to target group for quality (price variations).
3. Provision of assistance to small farmers to deliver seconds to domestic market for sale locally.
4. Provision of land to landless farmers by the agribusiness operation on a long-term rental basis.
5. Setting up of equipment pools by the agribusiness operation in which groups of farmers could purchase or rent the equipment needed in production of the commodity.
6. Provision of farm management services by the agribusiness operation to members of the target group.
7. Provision of storage and transportation for small farmer groups (pick up service) by the agribusiness operation.
8. Bulk purchasing of small farmer inputs (achieving economies of scale), with savings passed on to small farmers.
9. Making small farmers (producers) and laborers shareholders in the agribusiness operation.
10. Assisting the small farmer producers with either group credit or credit-in-kind provided by the agribusiness.
11. Assisting the small farmer producers to organize into producer associations.

Also, the intent of this criterion would be fully satisfied if LAAD provided financial assistance to a cooperative comprised substantially of small farmers and producing small farmer crops.

The Project Committee additionally gave careful consideration to two other issues of concern to the DAEC relating to the tightening of project selection criteria but determined that setting specific criteria to treat these considerations would be highly arbitrary, difficult to enforce, and pose constraints for LAAD/Caribe. These considerations were: a) the disposition to attempt to anticipate and prevent/minimize subsequent "adverse impact" on the small farmer target group from LAAD/Caribe's assisting a sub-project which may show some aspects of "vertical integration"

(e.g., a sub-project processing plant generating high new employment through development of company-owned lands); and b) the desire to require all Indirect Benefit sub-projects to purchase a minimum amount of raw agricultural products/services (e.g., 51 percent) from the target group.

Accordingly, the Project Committee recommends that the scheduled \$1.0 million commitment reviews of LAAD/Caribe progress carefully consider whether additional attempts to develop appropriate screening criteria for these considerations is necessary or if concerns for these matters has been overemphasized.

The recommended screening system proposed is expected to be adequate to the objectives set for it. Nevertheless, its applicability, adequacy, and use by LAAD should be closely examined at each of the \$1.0 million Reviews and modifications (tightening, or loosening), if necessary, considered.

In addition to the application of the above initial eligibility criteria, LAAD/Caribe will complete the PP's recommended "Project Assessment Form" on all sub-projects initially identified and subsequently approved by LAAD/Caribe for financing.

LAAD and AID are in agreement with respect to the criteria. To assist in evaluating the degree to which proposed sub-projects conform to these criteria, initial screening as well as overall criteria, a Project Assessment Form has been developed for this project. (See Annex IX, Exhibits 1 and 2). The Assessment Form will serve as a checklist for LAAD in analyzing its sub-projects and for the AID Project Manager in reviewing sub-projects financed by LAAD/Caribe. This combined approach serves as a control or screening of proposed project vis-a-vis AID/LAAD goals, before any commitment of resources is made by LAAD/Caribe to promote the project. The Project Assessment Form should be completed twice: 1) prior to LAAD/Caribe initiation/recommendation of intensive pre-feasibility analysis with at least the description section of the form completed, and 2) prior to commitment of funds for the activity, after the normal, intensive project analysis is complete. At the second time, refinement of estimates and judgment determinations should be made. Ideally these should support and reinforce the earlier decision.

This approach to project selection will serve as a management tool to be used in a controlled manner, and will provide management with available data and analysis necessary for prefunding decision-making regarding additional sub-project development and eventual financing.

Obviously, a proposed project demonstrating early positive effects against all criteria would fully qualify as "eligible", and thus the narrative evaluation called for by the form need not be lengthy. On the other extreme, a project with little immediate direct benefit would nevertheless, in the concept of agribusiness systems development, qualify for funding based on a determination that the near to medium term future effects or benefits to the target group will be significant. In this case, the evaluation would describe the hypothesis of the project, identify and assess the assumptions critical to its success, and specify any other factors which combine to make the decision to proceed with project development.

While LAAD/Caribe will be required to complete the Project Assessment Form for all sub-projects, the Target Group Initial Screening Criteria will be applied only to those sub-projects utilizing AID funds. Although AID and LAAD expect all sub-projects to have the projected target group impact, LAAD/Caribe must have certain flexibility in operations to, for example, invest in experimental projects which do not immediately demonstrate the proposed minimum target group impacts but promise significant agribusiness systems development effects.

An illustrative list of possible sub-projects for LAAD/Caribe promotion and financing, attached as Annex VII, Exhibit 3, also contains a brief commentary of the proposed projects' major characteristics. All of the proposed projects appear to satisfy the above eligibility criteria.

## 6. Relationship with Other Institutions

As is the case of Central America, it would be LAAD's policy to work with existing financial and development institutions in the area. This cooperation will be primarily in the area of developmental assistance. Although co-financing of medium-sized projects will be possible, in most instances LAAD Caribe's projects will probably be too small initially for more than one source of project financing.

The most important single development institution in the English speaking Caribbean is the Caribbean Development Bank (CDB) with headquarters in Barbados. LAAD management at the request of AID has already contacted the CDB and explored areas of common interest. These include export marketing assistance to CDB clients and the co-financing of medium and large projects where LAAD's greater flexibility could complete financial packages, in a manner similar to that which has characterized LAAD-CA's operational relationship with CABEI in Central America. LAAD management also anticipates that some of the CDB's agribusiness projects will get into trouble and that LAAD would have the opportunity to play an active role in turning them around.

Another regional institution in the English speaking countries is the Commonwealth Development Finance Corporation (CDFC) with its regional office in Kingston, Jamaica. The CDFC has been active in project financing, but recent management decisions in England have placed an effective floor of \$500,000 on the CDFC's participation in any one project. Since most agribusiness projects in the Caribbean do not require this size financing, the CDFC is looking to LAAD Caribe to fill in this gap and has already referred one project proposed to LAAD (Caledonian Farms on Grand Cayman). LAAD management meets periodically with the CDFC, which is planning to move its Caribbean office to Miami within one year.

LAAD Caribe would work with other local development institutions mainly through developmental assistance. LAAD management has already contacted the Jamaican Industrial Development Corporation (JIDC), which has responsibility for agribusiness project development within the Jamaican Government.

The Dominican Republic has several institutions and programs which finance agribusiness projects, including the Financiera Dominicana and the FIDE program administered by the Central Bank. The eligibility requirements for their loans are fairly strict, and there is often a need for risk

capital or for unsecured loans with convertibility rights LAAD's role within the framework of the Dominican Republic's development programs would be to emphasize risk taking and developmental services with less emphasis on straight debt financing.

The other countries in the Caribbean have no effective development finance institutions with which to work.

Colombia has a large number of private and public development finance institutions including COFIAGRO, the Corporacion de Abastos, the Caja Agraria, IFI, and a network of regional private financieras. Although the list of institutions is long, there is inadequate term financing available for agribusiness projects, and the shortage is even greater for risk capital. LAAD management has already contacted all of the above mentioned government agencies and has found areas of common interest, particularly in the areas of co-financing, promotion, technical assistance, and export marketing.

### PART III - PROJECT ANALYSES

#### A. Technical Analysis

##### 1. Suitability of Technology

The preceding section presented a complete description of the nature and type of activities proposed to be undertaken with this project, and also cited the substantial experience of the Borrower in similar activities in Central America under the AID/LAAD-CA program.

The clear implication of available evidence and analysis is that the proposed project and its technological implications are indeed appropriate for the specific time-place for which the project is proposed. The LAAD concept of agribusiness development has been successfully initiated in Central America; the next logical step in LAAD's growth is expansion into new areas to contribute to the diversification of country focus and regional scope necessary to enable LAAD to attract new shareholders over time, and to attempt to join LAAD's agribusiness development/marketing approach with opportunities existing in certain areas. The expected result in the Caribbean area should be no less than it has been in Central America to date: outputs such as increased exports in non-traditional products and resultant

foreign exchange earnings; increased food production; increased employment and income opportunities for the target group; and improved agribusiness and marketing systems. To the extent LAAD-sponsored or assisted companies are successful, imitation of those type of operations will be encouraged, as will the replication of LAAD-type agribusiness development financieras in other parts of the world.

LAAD's emphasis on actively attacking marketing constraints in food production/processing activities provides attention to the next level of concern after attention is given to increasing food production activities at the field level. Thus, the LAAD concept is a logical additional step for AID support in our overall assistance to food production activities.

## 2. Technical Design and Cost

The development of the proposed subsidiary - LAAD/CARIBE - essentially will follow the model and experience of LAAD/CA. Since no significant problems or inadequacies have been identified in LAAD/CA's organization and administration, it is reasonable to assume that that design is appropriate for the proposed application. This judgement is also confirmed by a recently completed assessment of LAAD's management plans for the Caribbean expansion performed by Checchi and Company under AID/W funding.

In regard to cost, several extensive analyses of LAAD's overall and subsidiary operations (actual and proposed) have been performed which conclude that the stated goals and purposes of the project can reasonably be expected to be achieved with the proposed financial inputs, in the proposed period.

## B. Economic Analysis

### 1. Importance of the Agricultural Sector

#### a. General Characteristics

The countries covered by the proposed loan vary greatly in size, language, and relative degree of industrial development. Jamaica with a total area of 11,424 sq. kilometers is the smallest, and Colombia with 1.1 million sq. km., is the biggest in the region. They all have low per capita income, high levels of rural unemployment and underemployment, and rely heavily on the agricultural sector for generation of substantial proportions of their national incomes. Haiti, the poorest country in the region, has a per capita income of \$146 (in 1973), and Jamaica with a per capita income of \$810 is the richest. However, high infant mortality (about 200 per thousand live births), low nutrition standards, and high illiteracy (as high as 90 percent of the adult population in Haiti) are better indicators of the low standard of living prevailing in the region. Due mostly to these factors, but partly also to lack of industrial development, underemployment and unemployment in the region varies between 18 to 34 percent of the national labor forces.

The agricultural sectors occupy positions of great importance in providing employment and generating income in these economies. Roughly 28 percent of the labor force, or 228,000 persons, are engaged in agricultural activities in Jamaica; in the Dominican Republic 50 percent of the active labor force earns its livelihood from agricultural activities; while in Haiti it is estimated that as much as 60-70 percent of total employment is generated by the agricultural sector. The sector also plays an important role in foreign exchange earnings of the region. Around 20 percent of Jamaican exports and 70 percent of the Dominican Republic's exports are of agricultural origin. The same is true in other countries of the region where the loan proceeds will be used.

Notwithstanding its importance to employment, the agricultural sector (including forestry and fishing) accounts directly for only small shares of the gross domestic products in these countries. In Jamaica 10 percent of the GDP is attributed to the agricultural sector; it amounts to about 20 percent in the Dominican Republic and about 25 percent in Haiti. This share has been declining in recent years, partly as a result of low rate of investment, poor economic policies, inadequate incentives to production, artificially depressed prices for agricultural commodities, and to a certain extent bad

weather. Low production is also caused by antiquated production techniques, lack of technical know-how, and inadequate or improper use of fertilizer, and insecticides.

The small size of the domestic markets and lack of external marketing arrangements in foreign markets are regarded by some experts to be among the biggest constraints in the growth of these agricultural sectors. In the absence of markets for their output the farmers do not endeavor to produce those crops, e.g., vegetables, which have great potentials to raise their incomes. Commenting on stagnation of agricultural sectors in Jamaica the IBRD states: "the double imperative of accelerating the growth of both exports and employment argues strongly for the promotion of labor-intensive export activities, particularly in agriculture."<sup>1/</sup>

This conclusion can be easily applied to other countries in the region. The need for the establishment and growth of agribusiness industries becomes more acute, especially when the GDP growth in the region (3.0 percent per year in Dominican Republic, 3.2 percent in Colombia) and the stagnation of employment opportunities at very low levels are taken into account.

Another common characteristic of the agricultural sectors in these countries is their domination by specialized, high export crops such as coffee, sugar, bananas, and tobacco. These crops have traditionally occupied at least 80 percent, and in some cases 90 percent, of the countries' total agricultural production. With such a high dependence on "cash" crops the countries in the region have been unable to produce required amounts of food crops and thus have been forced to import foodgrains in increasing quantities to feed burgeoning populations. This situation need not prevail, since with the possible exception of Haiti the natural environment for agriculture is generally good and there is a substantial potential for increased output. Given the small size of their domestic markets and their heavy independence on food imports, Caribbean countries must clearly expand and diversify their agricultural production exports, both to meet domestic demand and to enter foreign export markets, if they are to achieve sustained growth rates in both real income and employment without encountering severe foreign exchange constraints.

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<sup>1/</sup> IBRD, "Economic Report on Jamaica," Vol. I, Feb. 21, 1971; p. iv.

## b. Individual Country Situations

The following is a more detailed country-by-country economic analysis of the agricultural sector, and the opportunities for LAAD's developmental operations:

### i.) Dominican Republic

Agriculture is the most important sector of the Dominican economy, employing about half of the total labor force. Despite the fact that drought and other weather conditions depressed the growth rate of agriculture during 1973, it still generated around 20 percent of the total GDP that year. Agroindustry, along with mining, offers the best chance to develop the economy. This country still has available large amounts of underutilized land, and the Government is sponsoring major irrigation projects which will allow substantially higher yields (e.g., the Yaque River development). The country already has a power and road network, and a number of new agroindustries are under development with an excellent growth potential (beef, tomato paste, canned mushrooms, fresh vegetables, cut-flowers, plant cuttings, seafood). In most instances, these are industries with which LAAD already has experience and marketing contacts.

The geographic location of the Dominican Republic is favorable for exports. It is adjacent to Puerto Rico, a major market for a full line of agricultural products. It is well situated to service the entire East Coast of the United States. It has connecting service to Europe through Puerto Rico. The country is well located to supply the entire Caribbean, although shipping service within the Caribbean is spotty.

### ii.) Haiti

Haiti's natural resource endowment, particularly in respect of agricultural production, was one such that, given judicious management, it was able to become the richest colony in the world at the end of the 18th century. The indiscriminate felling of trees on steep slopes, over-cropping, and the absence of approximate cultivation techniques have combined to erode and exhaust a vast area of once productive land. Nevertheless, agriculture still dominates the Haitian economy, employing directly or indirectly about 70% of the work force, the highest percentage in the Western Hemisphere. Because of geography, population density, illiteracy, and an inadequate infrastructure, agriculture as a whole may not be able to become a dynamic force in the growth of the Haitian economy in the near term. Nevertheless, specific projects exist which have high growth potential. This potential could expand, if investments in infrastructure were accelerated

(e.g., the North Road to Cap Haitian and the South Road to Les Cayes, the extension of the Artibonite Valley irrigation system, more farm penetration roads, and improved port facilities. Haiti's geographic location is almost as favorable as the Dominican Republic's. Although container service to foreign ports is available, inland transportation is limited by the poor condition of the nation's roads.

The types of projects which could be successfully developed include the canning and processing of labor intensive crops, tropical fruits, flowers, seed, seafood, and poultry. Although most of the growth would come from the capturing of export markets, there still exist several opportunities for profitable import substitution operations.

iii.) Jamaica

Agriculture is a relatively less important sector in Jamaica than in other Caribbean countries. Most commercial agriculture consists of traditional crops such as sugar, bananas, and citrus, which jointly take up three quarters of the land under crops. Agriculture, particularly for export, has stagnated for about a decade, and the country now imports more of its food needs than before. Despite this weak performance, the sector continues to be the most important employer of labor, absorbing one third of the labor force. Agriculture yields are relatively low, and rural infrastructure needs more investment.

Government policy in agriculture has been aggressive, and official marketing boards control production, research, exports and sometimes processing of the major commodities. These boards have not operated effectively, but there is little likelihood of their being replaced.

Given current government policies, the overall agricultural sector, in the near term, is unlikely to become a dynamic force. However, there do exist a number of items which could become dynamic businesses, including specialty foods, fruits and spices, cut flowers, ornamental plants, honey, vegetable dyes, and some by-products, such as bagasse board. Two companies are currently experimenting with shrimp farming.

iv.) Panama

Despite the important role played by commerce in Panama, agriculture remains the single most important source of employment in the country. The sector constitutes the sole source of livelihood for approximately 50 percent of the country's population, employment about 40 percent of

the economically active labor force. Yet it produces only 20 percent of GDP. The sector has lagged badly in the last ten years vis a vis the economy's overall growth rate (3 percent versus 8 percent annually). This lag has caused local shortages, and the consequent importation of primary foodstuffs. From 1967 to 1972, food imports increased 87 percent to a total of \$42.6 million. The major components of this import bill were fruits and vegetables (22 percent), cereals (22 percent), dairy products (18 percent), meats (12 percent), and edible oils (9 percent).

In size and climate, Panama is similar to the five other Central American countries. However, it offers a definite geographic advantage in ocean shipping because of the Panama Canal, with good connections to Japan, most of the Western Hemisphere, and Europe. Panama's agricultural potential is considerable, particularly in the areas of beef, seafood, forestry, ornamental plants, citrus, tropical fruits, and some vegetables. The country's infrastructure is generally good, although large tracts of land are relatively inaccessible, particularly in the neighborhood of the Colombian border.

#### v.) Colombia

The agriculture sector has been growing at a somewhat lower rate than the whole economy in Colombia. In 1973, agricultural production increased by 4.7 percent compared with 5.5 in 1972, an increase which was not sufficient to satisfy the booming domestic demand for agricultural products. While the production of export crops such as coffee, cotton, sugar, tobacco, and bananas has continued to grow at impressive rates, the output of commodities destined primarily for domestic consumption has not kept pace with the growing demand.

Agribusiness is a major industry in Colombia and has a favorable growth potential, given the increasing need to import basic food products. Although such crops as coffee and sugar are the major sources of foreign exchange, Colombia is successfully developing a long list of non-traditional exports, including processed vegetables and fruit, beef, seafood, cut flowers, leather products, and furniture parts, industries in which LAAD has prior operational experience.

The country is particularly well suited in terms of climate and entrepreneurial ability to produce a wide range of agricultural products and has good power and surface transportation networks, although port facilities and ocean shipping need to be modernized.

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the entire Ministry of Agriculture will be reorganized so as to improve its extension, credit, and research services. An estimated \$140 million will be invested in these programs and projects during the next two years.

Colombia's national development plan emphasizes increased agricultural production and puts heavy emphasis on the improvement of the existing market system and the provision of increased technical assistance and credit.

Although it has no comprehensive, overall sector plan for improving the agricultural production, the Panamanian Government clearly considers this a top priority, and it has developed a well defined policy frame for attacking deficiencies in this sector. Principal among these include efforts to improve the domestic supply of high import food items through production promotion and price support programs. Other aspects of the strategy cover the provision of credit and technical assistance to small farmers.

Haiti's national development plan calls for over one-half of the budget to be directed to the agricultural sector. This includes the direct provision of increased technical assistance and credit particularly for animal breeding and vegetable production, the repair of irrigation systems and the establishment of reforestation programs to prevent erosion, and the improvement or construction of vital transportation links, such as the Northern Road, and Southern Road, and farm to market roads.

While they stress the need for increased agricultural production and are designed to overcome existing constraints, the national development programs have by and large left the agribusiness and food processing industries to the private sector. The proposed loan will enable LAAD to assist these industries with equity financing and capital assistance programs. Project selection will be patterned after LAAD's successful operations in Central America, and only those projects which are expected to complement national economic/agricultural development plans will be assisted. The emphasis will be placed on those activities which generate rural employment, increase non-traditional agricultural production and small farmer incomes, and enable the participating countries to enhance their foreign exchange earnings.

3. The Financial Situation

There are positive indications in each of the countries to be covered under the proposed loan of a strong demand within the private sector for investments in the type of enterprises which LAAD proposes to promote and invest its

resources. Furthermore, recent statistics reveal strong vitality in the financial sector of each of these countries and a growing sophistication across the board. Naturally, the spectrum of financial situations varies greatly. The transactions on the Colombian stock exchanges in Bogota and Medellin have increased from 1,524,000 shares traded in 1971, to 3,237,000 in 1973. (This phenomenon reflects the enactment in April 1973 of a corporate tax reform law which raised tax exemptions on demand income, reduced excess profit rates, and equalized tax burdens among corporations and other forms of public enterprises.) Even the Kingston exchange, which in recent years has been largely dormant and oriented to government bond issues, has of late been showing new signs of life with increased dynamism in both the numbers and values of share transactions. (Note: LAAD's sale of its equity participations will not depend on the existence of formal securities exchanges, since these transactions would be almost entirely of a private placement nature. The above examples, however, indicate an increasingly favorable climate for non-traditional financial activity.)

Other indicators for the region demonstrate recent growth in such significant areas as the amount of quasi-money holdings, the monetization of the rural, as well as urban, economy, and in the number and type of financial institutions providing financial intermediation services. The Colombian financial community is served by a plethora of various financial institutions. There are 24 commercial banks, 18 of which are Colombian and six of which are subsidiaries of foreign banks. There are several specialized banks including insurance companies, mutual funds, savings funds, livestock funds, regional development funds, as well as agricultural banks, mortgage companies, and 17 financieras or investment banks.

In Jamaica the growth of larger banks and trust companies (near banks) over the past five years has been dramatic and has reduced the traditionally dominant role of the commercial banking system in the financial intermediation process.

There has been a remarkable growth in Panama's financial system in recent years. The number of private banks operating in the country increased from 18 at the end of 1969 to 33 by 1971 and now numbers 51. Over the period of 1968-72, quasi-money (time and restricted deposits) was the most dynamic item, with its ratio to GDP rising by more than 10 percentage points over the five year period. The growth of savings deposits accelerated from an annual rate of 16 percent in 1969 to over 30 percent during the

1970-72 period. (This faster rate of savings followed the passage of the 1970 Banking Law, which allowed the country's mortgage banks -- now numbering four -- to pay an interest rate of 5½ percent on savings deposits, a rate one point higher than that allowed commercial banks.) Throughout this time, gross private capital formation has continued to grow, increasing by 21 percent in 1971 and 17 percent in 1972. This dynamism is in large part due to the pressure of an aggressive, sophisticated financial sector which has increased the amount of locally available credit.

The Dominican Republic has seen the rapid growth of savings alternatives to normal commercial bank deposits, specifically through the development of savings and loan companies and other financial institutions, such as industrial development corporations and cooperative development and credit institutions. The domestic assets of the investment companies, for instance, have grown from \$2.1 million in 1969 to \$39.9 million in 1974. Assets of financial companies have grown from \$2.1 million in 1963 to \$38.2 million in 1973. On a consolidated basis the assets of non-bank financial institutions have grown from a little under \$200 million in 1969 to \$390 million in 1973.

Even in Haiti expansion of banking facilities has been dramatic. In the past two years three foreign banks have opened branches (First National of Chicago, First Bank of Boston, and First Bank of Paris), thereby doubling the number of such institutions in the country. In October, 1973, the Banque de l' Union Haitienne, the first domestic Haitian bank, opened its doors and has by this date grown so rapidly that it has three urban branches and is planning to establish rural branches in many parts of the country. Quasi-money holdings in Haiti rose 35% in 1971 and 1972, outpacing the 24% annual rate of increase in currency and demand deposits. In 1973, Haitian quasi-money holdings rose 40%, vis a vis the 20% increase in currency and demand deposits.

The evidence thus suggests that savers and investors are moving out of the traditional demand deposit and savings account means of handling surplus funds and are taking advantage of several varieties of investment opportunities. Although one cannot deduct from this trend a preference for the type of projects in which LAAD will be engaged, the general climate seems favorable for investments of all kinds, including those which will bring profitable returns in the agricultural sector. In each country, however, the availability of equity financing continues to be scarce, and LAAD's participation would address this identifiable need.

Furthermore, taken as a whole, the area is more developed financially than is Central America. Jamaica and Colombia offer more sophisticated markets than do any of the Central American countries, as does Panama, and it is probable that the Dominican financial market is also more advanced than any of those in Central America. Although the geographic scope of the proposed loan includes the relatively more primitive markets of Haiti, Belize, and the smaller islands, with the exception of Haiti, the bulk of LAAD's activities will probably take place outside of this area. Al-

Interest rates vary from country to country in accordance with local monetary policies. In most instances, lending is based on fixed rates. In the Dominican Republic, Panama, and Jamaica, a 9% rate is common for project lending, particularly when government funds are available. In most of the other Caribbean countries, rates are somewhat higher and average in the 10-11% range. The case of Colombia is completely different, because of a decree of the Junto Monetaria limiting the maximum interest rate chargeable by foreign lenders to 1½% over the international cost of money (such as U.S. prime rate or the six month London Inter-bank Offering Rate for Eurodollars). This regulation makes fixed interest loans impossible, because a fixed interest could exceed the allowable limit when international interest rates are low. For this reason, it is recommended that LAAD be given flexibility in fixing interest rates, which, however, would not be higher than normal rates charged by established financial institutions operating in those countries.

#### 4. Economic Impact of LAAD Activities

##### a. Impact on Investments

The proposed loan of \$6.0 million and equity investment of \$2.0 million will provide LAAD Caribe with \$8.0 million of capital resources. Based on LAAD-CA's experience (it is expected that local investors will contribute east 125 percent of LAAD Caribe's commitments in the ventures) the total new investments during the initial phase will amount to \$19.2 million as follows:

AID Loan	\$ 6.0 million
LAAD Equity	\$ 2.0 million
Private Investors	<u>\$11.2 million</u>
TOTAL	\$19.2 million

LAAD's management expects to revolve its funds about three times during the life of the project. Thus, the total impact on investments in the region should amount to approximately \$57.6 million ( $\$19.2 \times 3$ ) during the life of the loan.

b. Impact on GDP

The marginal capital/output ratio for LAAD investments is assumed to be 1.5:1 or  $.67\frac{1}{2}$ . On this basis, the value added through this project should aggregate \$12.9 million annually ( $19.2 \times .67$ ) during the first phase of utilization but it should expand to a cumulative figure of \$37.7 million annually by the end of the project.

These figures refer only to value-added subsequent to LAAD's involvement. Additional indirect impact particularly on agricultural production is anticipated, but the magnitude of these impacts on value added and GDP increases cannot be precisely projected.

c. Impact on Exports

LAAD's experience in Central America helped the participating enterprises to increase their exports by about \$27 million annually since the beginning of LAAD's operations in 1971. For every \$1 million invested, exports of the Central American countries are expected to increase by \$1.4 million. It is expected that LAAD Caribe will be able to make comparable contributions to the Caribbean region. A \$6.0 million AID loan plus \$2.0 million equity should enable the region to generate \$30 million in additional exports by 1980 and result in the generation of up to \$100 million annually by the end of the project.

d. Employment generation

The activities financed or otherwise supported by this figure will generally be labor intensive. As far as economically feasible, attempts will be made to use less capital and more direct labor. Based on LAAD's Central American experiences, it is estimated that for every \$3,300 investment, one full time job will be created. Thus, during the first round of loan utilization about 6,000 new workers are

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<sup>1/</sup> Based on LAAD's experience in Central America during the first draw down of the AID loan. The total investment was \$19.2 million, and the projects yielded an annual income of \$12.9 million. Output divided by input generates a ratio of .67. It is assumed that Caribbean experiences will not be significantly different, since the priority industries identified in the Caribbean are similar to those in LAAD/CA's portfolio.

expected to be employed, and during the life of the project some 18,000 additional jobs should be created by the LAAD-assisted industries. Several thousand additional jobs will be created in activities directly and indirectly related to the sub-projects.

e. Impact on the Target Group

The priority beneficiary of the proposed project is the rural poor in the areas where LAAD operates. This group is expected to be composed of rural landholding small farmers and landless workers. Rural poor who operate or have the capacity to operate small agribusinesses which supply products or services may also be beneficiaries. In addition to the employment benefits outlined above, the proposed project should produce significant improvements in small farmer income. By promoting the establishment of food processing plants and distribution facilities and by opening up export markets, LAAD is developing a profitable market for foodstuffs, all of which are or will be produced by the target groups. To insure the ready availability of an export market, LAAD has set up several marketing services. These companies will act as intermediaries, buying in the Caribbean and Latin American North Coast region and selling simultaneously in the U.S., Canada, and shortly in Europe.

The increase in demand for products such as fruits and vegetables is expected to generate substantial increases in both employment opportunities and agricultural productivity. This was the experience under the first LAAD loan in Central America. Fruits and vegetables, in particular, are typically grown on small farms by means of highly labor-intensive methods.

The LAAD program will have a substantial impact on agricultural productivity by permitting farmers to shift their land from lower-yielding subsistence agriculture to the growing of cash crops commanding high prices in foreign markets. The potential for increasing agricultural productivity in the Caribbean region is significant although difficult to quantify.

5. Relation to AID Priorities and Mission Programs

a. AID Priorities

The LAAD project is fully responsive to the following recent congressional mandates and priorities:<sup>2/</sup>

<sup>2/</sup> Described in the "Congressional Mandate Analysis," AIDTO CIRC A-739 of November 4, 1974.

i.) Concentration on a few key sectors directly responsive to the most pervasive problems confronting the poor majority;

ii.) Shifting from capital intensive to more labor intensive policies, programs, and projects;

iii.) Greater participation of the poor in the development process;

iv.) Small producer oriented development;

v.) Programs actively attempting to distribute income more equitably;

vi.) Greater reliance on private institutions;

vii.) U.S. access to developing country resources; and

viii.) Increased U.S. trade and investment in developing countries.

b. Mission Programs

The proposed loan corresponds to the priority assistance areas outlined in the Dominican Republic, Haiti, Jamaica, Panama, and Colombia DAPs. Each of these emphasize the necessity of strengthening the agriculture sector and stress the importance of agroindustries in forwarding this process. The increase and diversification of foreign exchange earnings, particularly through the stimulation of non-traditional food crop production, is a common goal. LAAD's activities will contribute directly to these objectives via its role as a catalyst in the mobilization of capital, the transfer of technology, the generation of employment, and the increase in agricultural productivity.

## C. FINANCIAL ANALYSIS

### 1. Background and General Observations

With the exception of attracting new equity capital, LAAD's performance under the first AID loan was exemplary. While neither the loan nor the equity portfolio reached projected levels, due primarily to a shortfall in projected paid-in capital, retained earnings were on target. Furthermore, the proceeds of the first loan were drawn down on a timely basis; LAAD's profitability improved steadily, both in absolute and relative terms; and LAAD achieved the goal of investing approximately two thirds of the first loan in direct equity participations or sub-loans with equity features. A detailed account of these factors is contained in Section IV - Financial Analysis, of the CAP for recently authorized second AID loan to LAAD for Central America (AID-DLC/P-2078/1).

LAAD's projections and supporting assumptions appear as reasonable as any others that could be made in view of the fact that they are based on LAAD's experience in another geographic area. By 1980, LAAD on a consolidated basis will have increased its assets three times and be returning 8.1% of net income to net worth. Expansion will accelerate after 1980 with total assets rising to \$58 million in 1985 whereas LAAD's return on net worth will rise slowly to 11.5% by that year.

Achievement of these goals, as is the case of the LAAD-CA loan, it will be necessary to:

- a. Attract the necessary equity capital financing;
- b. Select viable investments with sufficient growth potential;
- c. Assist those investments to achieve their potential within the cost restraints (LAAD's) projected; and
- d. Sell developed and viable investments at approximately the yields anticipated.

LAAD's long range viability depends upon the same four factors plus the ability to replace AID loan funds, at a reasonable rate of interest, as AID debt is repaid. If LAAD is equal to the task and if the opportunities are available, a new AID loan of \$6.0m will assist LAAD to succeed.

### 2. Projections

Complete financial projections (profit and loss statement, cash flow and balance sheet) for the period 1975-85 are presented in Annex VI - Financial Data. These projections segregate LAAD Caribe from other LAAD operations (LAAD itself

and LAAD-CA) to allow separate evaluation of each as well as of the consolidated figures. Since the LAAD-CA projections were evaluated in the CAP for the second AID loan to LAAD (AID-DLC/P-2078/1), this analysis will focus on LAAD Caribe and the consolidated results.

a. LAAD Caribe

LAAD Caribe should be able to reach a total size of over \$9.0 million by 1980, when the AID loan will have been completely disbursed. During that year it is expected that LAAD Caribe will begin to borrow from private sources. This borrowing will be feasible only on the basis of LAAD's consolidated financial position, however, since LAAD Caribe would not yet have a sufficient maturity to permit borrowing for its own account.

By 1980, LAAD Caribe is also expected to have built up an equity portfolio of \$1.3 million, which will provide the base for the company's earnings by 1985. Annual cash flow by 1980 will be in the \$3-4 million area, which is consistent with LAAD-CA's experience under the first AID loan. About \$400,000 of this cash flow will be invested in equity, and this level will be expanded gradually, since the company's own equity base would provide the necessary sources for this expansion.

LAAD Caribe should be able to make a small profit in 1980, as the first income from sales of equity holdings is received. The projected earnings record of LAAD Caribe is less favorable than that experienced by LAAD-CA during the corresponding period of its development, since the company will be incurring higher operating costs as a result of the recent inflation and the intrinsically higher cost of doing business (largely caused by transportation and communications) in the geographic area to be covered by the project.

By 1985, LAAD Caribe will have made ten repayments of the AID loan and reduced the outstanding balance of the loan to \$4 million. Despite this, it is expected that the total Caribbean program will have expanded to \$21 million, based on additional equity investments by LAAD and borrowings from private sources. Most of this expansion will come as a result of borrowing by the parent company, since the financial results of LAAD Caribe alone would not support the projected inflow of equity and private borrowing.

The annual cash flow expands from the \$3-4 million level in 1979-80 to nearly \$12 million by 1985. LAAD management is of the opinion that it could handle that volume of project financing with the staff and operating expenses provided for in the projections.

By 1985, LAAD Caribe's equity portfolio is expected to have increased to \$3.3 million and constitute a major source of the company's anticipated earnings.

Also by 1985, the company's financial position would be reasonably strong with a debt/equity ratio of 4:1. This would allow continued expansion of LAAD Caribe's operation beyond 1985 without the need for a further infusion of equity. LAAD Caribe's earnings should also have increased to \$265,000, which would represent a 6.3% return on net worth. However, this return would be insufficient to attract private Caribbean investors and continued expansion of LAAD Caribe will have to come from LAAD's own internal resources. (See Tables 1 and 2).

b. LAAD (Consolidated)

A stated objective of this loan, aside from AID's desire to see a new agribusiness development program in the Caribbean benefiting the target group, is to enable LAAD to attract additional private equity and debt funding which will allow it to continue growing, based on its own financial capabilities.

The proposed geographic expansion into the Caribbean will make LAAD a more attractive package to private financial institutional investors concerned with Latin America. This increased equity base and the long term AID funding would allow LAAD to attract significant private borrowings which will complement AID funds.

By 1980, LAAD is projected to have total assets of \$31 million, or three times the present asset size. Earnings by that time are expected to rise to \$845,000, which represents a 8.1% return on net worth. This return is considered low. However, the return on invested equity (exclusive of retained earnings) comes to 11.5%, which in the opinion of LAAD's management would be sufficiently high to attract new shareholders, provided LAAD's stock is sold at par rather than book value.

LAAD's consolidated debt/equity ratio will reach 2:1 by 1980, which will provide ample borrowing capacity in future years, assuming that a 5:1 ratio represents a reasonable borrowing limit for a company assuming risks such as LAAD's.

After 1980, LAAD is projected to increase gradually its borrowings from private sources without any need for additional equity.

By 1985, total assets rise to nearly \$60 million, or six times LAAD's present asset level. Most of this increase will be financed by expanded private borrowings, (\$31 million outstanding as of 1985). Even so, the total debt/equity ratio only rises to 2.4:1, mainly because the increased indebtedness is partially offset by retained earnings (\$8 million by 1985). Again, assuming a borrowing capacity five times its net worth, LAAD could have expanded its total assets to a theoretical limit of \$102,000,000 by 1985, but this would require a significant increase in staff and probably the creation of another subsidiary elsewhere in Latin America. This alternative was not built into the projections, as it is considered outside the scope of this evaluation.

Consolidated earnings by 1985 rise to an estimated \$1.9 million, which represents a reasonable 11.5% return on net worth. These earnings would be sufficient to allow LAAD to continue an active program of equity investments and to provide the borrowing base for self sustained growth.

The above results demonstrate the effects of a \$6.0 million loan for LAAD's Caribbean program. These constitute a major benefit of the proposed loan. (See Tables 1 and 2.)

LAAD's ability to expand with private resources will significantly increase the long term impact of AID concessional lending. During the 1975-85 period, LAAD is expected to generate about \$150,000,000 in total cash flow on a cumulative basis. Whereas AID currently provides 75% of LAAD's cash flow, this percentage would fall to only 11% by 1985 on a cumulative basis. Rollover of project loans would contribute 35%, and new private borrowing would provide 33.5%. A percentage breakdown of the cumulative sources and use of funds for the period 1975-85 is summarized below:

Break down of LAAD's  
Cumulative Cash Flow  
(1972-1985)

<u>Source</u>	<u>\$</u>	<u>Use</u>	<u>\$</u>
Equity - U.S.	5.3	Time Deposits	0.7
Equity - LA	.6	Equity	12.0
Debts - AID	11.3	Agribusiness Loans	66.6
Debts - Other	33.3	Loans Repaid - AID	4.7
Operating Income	9.3	Loans Repaid - Other	14.0
Loan Repayments	34.0	Dividends	2.0
Sale of Equity	6.2		
	<u>100.0</u>		<u>100.0</u>

As of 31 - October 1985

	1980		1985	
	LAAD*	CARIBE	LAAD*	CARIBE
<u>ASSETS</u>				
Equity Portfolio	\$ 6,580	\$ 1,300	\$10,780	\$ 3,300
Loan Portfolio	23,545	7,945	45,680	17,275
TOTAL PORTFOLIO	\$30,125	\$ 9,245	\$56,460	\$20,575
Other Assets	675	130	2,060	265
TOTAL ASSETS	\$30,800	\$ 9,375	\$58,520	\$20,840
<u>LIABILITIES AND EQUITY</u>				
Long Term Debt				
AID	\$15,635	\$ 6,000	\$10,085	\$ 4,050
Other	4,625	1,000	30,975	12,600
TOTAL LONG TERM DEBT	\$20,260	\$ 7,000	\$41,060	\$16,550
Other Liabilities	160	55	335	115
TOTAL LIABILITIES	\$20,420	\$ 7,055	\$41,395	\$16,665
Common Stock	\$ 6,400	\$ 2,400	\$ 7,200	\$ 3,200
Preferred Stock	\$ 1,700	-	\$ 1,700	-
Retained Earnings	2,280	(80)	8,225	975
TOTAL EQUITY	\$10,380	\$ 2,320	\$17,125	\$ 4,175
TOTAL LIABILITIES AND EQUITY	\$30,800	\$ 9,375	\$58,520	\$20,840

\* LAAD - Consolidated

Summary Profit and Loss Statement

In 000's of \$ - Year Ending October 31,

	<u>1980</u>		<u>1985</u>	
	<u>LAAD*</u>	<u>CARIBE</u>	<u>LAAD*</u>	<u>CARIBE</u>
<u>REVENUE</u>				
Interest Earned	\$ 2,190	\$ 700	\$ 4,340	\$ 1,600
Dividends Earned	405	70	780	220
Capital Gains	500	50	1,885	485
Other Revenue	60	10	135	35
TOTAL REVENUE	<u>\$ 3,155</u>	<u>\$ 830</u>	<u>\$ 7,140</u>	<u>\$ 2,340</u>
<u>EXPENSE</u>				
Interest - AID	\$ 470	\$ 180	\$ 290	\$ 125
Interest - Other	275	35	2,240	900
TOTAL	<u>\$ 745</u>	<u>\$ 215</u>	<u>\$ 2,530</u>	<u>\$ 1,025</u>
Operating Expense	1,300	450	2,075	820
TOTAL EXPENSE	<u>\$ 2,045</u>	<u>\$ 665</u>	<u>\$ 4,605</u>	<u>\$ 1,845</u>
Operating Income	\$ 1,110	\$ 165	\$ 2,535	\$ 495
Reserve for losses	250	100	570	230
Amortization	15	-	-	-
NET INCOME	<u>\$ 845</u>	<u>\$ 60</u>	<u>\$ 1,965</u>	<u>\$ 265</u>

\* LAAD - Consolidated

### 3. Financial Assumptions \*

#### a. Average Lending Rate

The average lending rate of 9.5 % for LAAD Caribe subloans was deducted by placing the anticipated sublending rate by country in an equation weighted by the anticipated volume of lending in each country, as evidenced by LAAD's illustrative list of sub-projects in the Caribbean area. (ANNEX VII, Exhibit 3). These calculations are demonstrated below:

<u>Country</u>	<u>Interest Rate</u>		<u>Preliminary Lending Levels</u>	<u>Weighed Factor</u>
Dominican Republic	(9%)	at	\$1.030 mil.	.927
Haiti	(11%)	at	\$1.150 mil.	1.265
Colombia	(9%)	at	\$1.900 mil.	1.710
Jamaica	(9%)	at	\$ .850 mil.	.765
Panama	(9%)	at	\$ .800 mil.	.720
Belize	(11%)	at	\$ .300 mil.	.330
Cayman Islands	(11%)	at	\$ .110 mil.	.121
Turks and Caicos	(11%)	at	\$ .100 mil.	.110
			<u>\$6.240 mil.</u>	<u>5.948</u>

5.948 divided by 6.24 = 9.53

LAAD's interest rate estimates seem reasonable. In the Dominican Republic it will be competing with 9% FIDE and 8% Agriculture Bank rates. In Haiti, where agricultural and industrial credit is scarce and hardly available on a term basis, LAAD could charge as much as 11%, at least until other less expensive sources become available and interest rates in general fall. Because of its strong and continuing inflation, Colombia's situation is somewhat more complicated. LAAD will peg its interest rates to the Eurodollar rate and lend only to export-oriented industries whose earnings will be in hard currencies. In any case, LAAD will have to maintain some parity with the lending rates of existing official industrial, agricultural, and export financing funds - all of which lend at what are in effect negative rates (15-18%). Credit for agricultural and industrial projects is available in Jamaica and Panama at near-concessional rates (8-9%) from government entities and funds, whereas in Belize and the smaller islands, the current absence of economic development funds will permit LAAD to lend at higher rates, at least for the foreseeable future.

\* A complete listing of financial assumptions is included in Annex VI.

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b. LAAD's Ability to Obtain Equity Participations

In the Caribbean area, as in Central America and indeed the rest of the world including the United States, there is no general disposition to give the financier an opportunity to hold part of a venture's equity. The feeling is that the financier will be paid for his services through interest charges; he has no particular right or special reason to participate directly in the venture's fortunes. Thus, there is an innate resistance to permitting development banks, investment companies, and the like to purchase equity in the companies they finance. The granting of options to acquire such equity or the contracting of debt in the form of convertible debentures are even less frequent practices than straight equity purchases; they are also much less attractive ones in the eyes of the Borrower. The head of the Bank of America's Dominican financiera, COFINASA, states that as hard as he has tried, he has only been able to obtain equity options in three of the thirty-odd companies he has financed during the past three years. Although investment companies such as ADELA and the Commonwealth Development Investment Corporation (CDIC) traditionally take equity positions in their Caribbean ventures (see **Section II, The Project**), the use by them of options or convertibles is extremely limited.

The feeling among development and investment bankers in the area is, however, that the use of equity instruments - as well as the ability to purchase straight equity participations - is possible for an organization which actively promotes and assists in putting together the venture to be undertaken. This acceptability by the local owners of outsider ownership would apply to expansion projects as well as new ones, as long as the expansion represents a significant departure from current practice and involves new production, processing, packaging, or marketing features. The above criteria for a financier's admission to an investors' group seem to match the nature of LAAD's operating practices. Indeed, the feeling among development bankers in the countries affected by the proposed loan is that a company such as LAAD (and many of them are acquainted with LAAD and its Central American operations) would be able to invest directly or indirectly in projects under the proper circumstances.

These proper circumstances include not only the above-mentioned promotional contributions but also participation in ventures as an equal among other investors. Because equity features of any kind are regarded as significant concessions by the investor group, the financier - or promoter - cannot exact higher than usual charges for his financing services. Indeed, he will be expected to match credit normally available from the least expensive source - normally a government development bank or fund - despite

the fact that his services, including the rapidity with which he can make the money available, are far greater than those of the cheapest source. Thus LAAD seems to have an opportunity to acquire equity participations in the ventures it promotes in the Caribbean, as it has successfully done in Central America. But such participation, as in Central America, will depend among other things upon its lending at what might be the minimal commercial - or development bank - rate. As demonstrated in the preceding section, this rate is projected to carry a weighted average of nine and a half percent during the life of the project.

c. LAAD's Ability to Divest itself of Equity Participations

The financial assumptions call for LAAD to divest itself of its equity participations (acquired either through direct equity investments or the exercising of equity rights under options or convertible debentures) at such times as the sub-projects mature and reach the stage where the shares become attractive to investors. For the purpose of the projections an average maturing period of five years was used. The easiest market for LAAD in such divestments would be the current shareholders in the particular venture. Indeed, many agreements by which LAAD has acquired such equity call for LAAD to give the shareholders the first right of a refusal. In practice, LAAD will attempt to market its shares wherever it can and, once a price was agreed upon, it will then approach the shareholders (if they are not the prospective buyers) and give them the first chance to purchase LAAD's participation at the established price. This procedure assures LAAD that it will obtain the best possible price at any particular time.

Traditionally, outsiders are not anxious to purchase equity in what are normally closely held businesses or corporations, since local legislation both in Central and Latin America rarely protects the minority shareholder. LAAD, however, makes it a practice always to introduce minority protection clauses in the basic articles of incorporation of the company in which it becomes an equity partner. Such clauses may provide that a certain percentage of the earnings must be paid out in dividends; that the company will undergo an annual external audit by a certified accounting firm; that the company may not take any major actions without the approval of a certain percentage of the shareholders, that percentage being high enough to necessitate LAAD's affirmative vote; and that the articles of incorporation themselves may not be modified without a certain percentage

of shareholder approval, again high enough to require LAAD's assent. Although these measures cannot, of course, in themselves insure the complete protection of minority stockholder rights, they do constitute an important forward step, one which should tend to make the purchase of LAAD's shares by interested outside parties significantly more attractive than is otherwise the usual case.

#### PART IV IMPLEMENTATION ARRANGEMENTS

##### A. PROJECT IMPLEMENTATION

###### 1. Recipient

Part II, B, 3, Description, (pp 10-23) set forth a detailed assessment of the Recipient's expected administrative arrangements in implementation of the project. That section identified in detail: the key organization which will implement the project (viz, LAAD-CARIBE, the LAAD subsidiary to be created); the roles to be played by LAAD-CARIBE, LAAD (the parent organization), and other entities such as shareholder companies and clients of LAAD; and the importance and inter-relationships of these roles.

The implicit, but clear, conclusion of the sections referred to is that the proposed new subsidiary will be equal to the tasks set for it. The primary basis for this conclusion is that in general, the responsibilities of LAAD-CARIBE will not vary significantly from those of LAAD-CA, and the LAAD-CA organization has proven itself equal to its tasks to date.

Specific mechanisms and operating procedures proposed in that section are deemed adequate by the Project Committee to achieve the stated goals and purposes of the proposed project. Where necessary, e.g. with regard to ensuring target group benefit incidence through LAAD subprojects through the utilization of a project assessment form, certain procedures were strengthened or modified.

2. A.I.D.

With a single significant exception, AID's administration of this project will generally follow the policies and procedures instituted by ROCAP and LAAD under the first and second AID/LAAD projects. In the absence of a regional field office similar to ROCAP with implementation responsibilities for Caribbean area projects, project management responsibility for this activity could be handled in one of three ways:

a) utilize the mechanism and experience of ROCAP with the LAAD-CA project and request ROCAP to play a major role in project management;

b) assign implementation responsibility to one of the USAID field missions in a country where LAAD Caribe will operate;

c) assign project management responsibility to AID/W (LA/DR), and utilize the facilities and services of field Missions in the Caribbean and Colombia, as appropriate, to assist with certain aspects of project implementation.

While much can be said in favor of the first alternative (viz., ROCAP is thoroughly familiar with the LAAD-CA operation: implementation of the first AID loan to LAAD was handled efficiently; recommended implementation procedures for the proposed project are not expected to differ significantly), the major negative factor is the fact that ROCAP's experience and interests do not and cannot be expected to comprehend the diversity of issues involving the Caribbean and the Latin American North Coast countries. Furthermore, communication is especially difficult. Telephone links and airline connections between the Caribbean and Guatemala City are no more favorable, or inexpensive, than those with Washington. Because of these factors this option was not considered attractive. (Note: ROCAP has agreed to include Panama within its project management responsibilities, since LAAD-CA has operational responsibility for projects in that country.)

The second option is also unsatisfactory in that no single Caribbean or Latin American North Coast field Mission has sufficient familiarity with the AID/LAAD

projects to date to assume project management responsibility for the entire region. Furthermore, no single mission can be reasonable expected to speak for all countries and to address adequately the individual country considerations which will arise during the life of the project. Although Barbados, as headquarters for the Caribbean Development Bank, with which both AID and LAAD expect the new LAAD subsidiary to have close contact during this project, has the advantage of familiarity with the regional CARICOM policies and English speaking countries, individually it cannot be expected to be familiar with agribusiness and investment conditions in Haiti (French speaking), the Dominican Republic, and Colombia. Alternatively, the Mission in the Dominican Republic, while it will enjoy ease of contact with the proposed field office of the subsidiary which is expected to establish its office in Santo Domingo, cannot be expected to speak for the other areas of the Caribbean or the Latin American North Coast countries.

The third option appears to be the most favorable. The Office of Development Resources has played a major role in the AID/LAAD cooperative efforts undertaken to date since first contacts were established in 1970 and possesses familiarity with all phases of the project. Furthermore, AID/W management permits the maintenance of an effective and up to date overview of, and control over, project progress, as well as the ability to coordinate any implementation decisions or actions with appropriate Caribbean/North Coast country desks and USAIDs as required. Such is presently the case with regard to the administration of the Andean Development Corporation and Caribbean Development Bank loans, for which LA/DR has project management responsibilities. The president of LAAD must regularly travel to New York for meetings of LAAD's Loan and Investment Committee and its Board of Directors as well as for other LAAD business. Regular meetings with the AID/W (LA/DR) Project Manager to report on and review project status and any other matters (pertaining to the new subsidiary, the parent company, or its affiliates), for instance, could be conveniently scheduled.

Under this arrangement, the AID Mission Controller in the country where LAAD/Caribe would locate its office would be delegated fiscal control of loan fund responsibilities. AID Missions in countries where LAAD Caribe investments would be located would regularly be requested to visit

sub-project sites to assess sub-project status and insure proper utilization of funds. (To this end, the LAAD Caribe senior executive could arrange periodic inspection tours with AID Mission personnel, as requested.)

Overall project management, control, and monitoring responsibilities would reside with the Office of Development Resources. Implementation responsibilities exercised by this Office would include, but not be limited to:

- a) insuring compliance with the conditions and covenants of the loan agreement and implementation letters;
- b) exercising approval authority for proposed LAAD Caribe sub-projects; and
- c) evaluating the project.

Within this Office, daily implementation duties would be assigned to the Development Banks Division.

Precedents for this type of implementation arrangement exist with the AID loans to the Andean Development Corporation, Caribbean Development Bank, and the Pan American Development Foundation.

(See Section E, below, for details on management tools to be used in this implementation.)

#### B. Review and Approval of Sub-Projects by LAAD Caribe

The sequence of events which LAAD Caribe will follow to assure objective and comprehensive review of each proposal is:

- 1) Review of a questionnaire prepared by the sponsors of the project seeking assistance (either equity investments or loans). The form of this initial questionnaire is set forth in Annex IX, Exhibit 2.

- 2) Initial review of the questionnaire and the subsequent preparation by LAAD Caribe of a written summary identifying, among other items, the following:

- a) Items requiring additional data;
- b) References to be checked;

c) Financial analysis required, including the nature of investment proposed, alternative means of structuring assistance, and prospects for subsequent sale of shares;

d) Technical review required, including time phasing (PERT, CPM, etc., if appropriate);

e) Marketing data needed; and

f) A preliminary assessment of the overall prospects of the proposal, including the degree to which the project satisfies the selection criteria described earlier and a description of the project's likely effects (either negative or positive) on the environment and the status of women.

3) LAAD Caribe will then decide whether an intensive examination of the proposal is warranted and will notify the sponsor as to the results of the review. In case of positive decisions, LAAD Caribe will proceed with the detailed investigation of the necessary items, including those listed in #2 above.

4) On proposals subjected to extensive investigation, LAAD Caribe will prepare and submit an Investment Document (i.e., loan paper) to the LAAD Loan and Investment Committee for approval. The Committee meets quarterly and is composed of seven members of the Board of Directors.

5) At this stage, LAAD Caribe will obtain approval from AID for sub-projects involving over \$100,000 of financing to be financed with AID funds.

6) When projects are approved, LAAD Caribe will advise the sponsor by a commitment letter. After the provisions of the letter have been agreed to in writing by the sponsor, LAAD Caribe will proceed with:

a) Preparation and execution of loan or investment documents, including provisions of the AID loan as appropriate;

b) Registration of loan or investment; and

c) Disbursement.

7) Following initial disbursement, a project supervision program will be developed setting forth approximate dates for site visits by appropriate LAAD Caribe staff members to focus on specific issues and problem areas that may develop, as well as to generally review sub-project status, as long as LAAD Caribe maintains a financial interest in it. This will provide for scheduled written reporting for maintaining detailed records of the progress of projects during their implementation and operating phases.

LAAD reviews each application as soon as possible after it is received. If an application is rejected, the sponsor is notified within one week after this decision is made. The loan approval process, on the other hand, normally takes on the average of three months from the date the application is received until LAAD Caribe representatives present a commitment letter to the sponsors. The same is true for proposals which make it to the intensive examination stage, but are subsequently rejected.

C. Review and Approval of Sub-Projects by AID

All LAAD Caribe projects regardless of size or whether or not they are AID financed, will be submitted to LA/DR with a copy to the USAID field Liaison Mission for review. The information included in these submissions will consist of the following:

- 1) LAAD Caribe Investment Document: full technical, financial, and economic description and justification of the project;
- 2) LAAD Caribe letter certifying that the investment has been authorized by LAAD's Investment and Loan Committee;
- 3) Copy of the Loan Agreement and/or Share Purchase Agreement with the LAAD Caribe client as soon as it is available; and
- 4) A complete Project Assessment Form (Annex IX, Exhibit 1).

Each AID financed project will be checked for compliance with the Loan Agreement, and any project to utilize more than \$200,000 in AID funds will require formal approval by the AID/W Project Committee in writing through an Implementation Letter. The \$200,000 limit will be required for the disbursement of the first \$1.0 million. Assuming satisfactory performance under the first \$1.0 million review,

favorable consideration will be given to removing the discretionary limit.

#### D. LAAD Caribe Project Implementation

The operating procedures established for and under the AID-LAAD/CA program, and found satisfactory by ROCAP-AID, will be utilized by LAAD Caribe. Those procedures are detailed below.

##### 1) Supervision and Reporting

LAAD Caribe will indirectly participate in one form or another in the management functions (other than day to day management) of most of the companies it finances. This will provide the best means for detecting and controlling problems. In a number of cases this will be accomplished by participating in marketing functions. LAAD Caribe will also often act as financial advisor to the companies it finances and conduct negotiations on their behalf when they require funds from other credit sources. This is a service which LAAD-CA's clients in Central America usually are willing to delegate. It has proven to be a particularly useful tool in evaluating project progress.

LAAD Caribe will use its best efforts to require every client to provide quarterly periodic progress reports\* and quarterly or semi-annual financial reports (smaller companies will be allowed to submit semi-annual reports). Reports and statements revealing problems will be followed up by visits to the project site. Annual audited financial reports are required by all projects. If the cost of independent auditing is too high for the company to incur in its initial stages, this requirement may be waived.

To be included in the status or progress reports prepared by LAAD Caribe clients will be updated data on the quantitative baseline and progress indicators established in the Project Assessment Form for measuring the particular sub-project's effects on the target group and agribusiness development objectives. For example, the numbers of jobs initially projected to be produced when fully operational would be compared with the number

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\* The nature of LAAD sub-projects (small size; operated by independent entrepreneurs with small administrative staffs/assistants) makes the requirement of quarterly progress reports difficult to enforce.

of jobs at initiation of the project and the actual current number; additionally, the value of salaries and or wages paid should be similarly presented, along with new data or any of the other indicators relevant to the subproject as shown in the completed Project Assessment Form.

In addition to using regular site inspections in the effective supervision of its projects, LAAD Caribe will also supervise its projects indirectly by maintaining close relationships with the business communities in the Caribbean and the Latin American North Coast countries, particularly with other creditors of the LAAD Caribe projects.

## 2) Staff Responsibilities

All of LAAD Caribe's full-time staff of professionals will participate fully in project supervision. Projects will be assigned to specific professionals whose responsibility will be to insure compliance with loan and share purchase agreements. Any deviations or delinquencies will be reported to LAAD Caribe's Senior Executive who will in turn report them to the Miami office for further follow-up.

## E. AID Project Management and Monitoring Plan

The following management tools will be utilized by the AID/W Project Committee.

### 1) Reports

a. LAAD Caribe will submit to the Project Manager a Monthly Status Report. This report will contain a breakdown by project, type of industry, commitment and disbursement figures, approval dates, terms and conditions of financing, uses of AID and LAAD funds, and special comments as appropriate.

b. Annual Audited Financial Statements, prepared by a CPA firm acceptable to AID, will also be required.

c. An annual audit, prepared by a CPA firm acceptable to AID reviewing compliance with terms and conditions of the AID loan agreement, will also be required.

### 2) Evaluation

In addition to the monthly reports, on-site inspections, and annual financial audits, two evaluation tools which have proven to be effective in the past for

ROCAP with the first LAAD-CA project will be utilized: the million dollar review and the annual evaluation.

a) Million Dollar Review

These reviews will be joint AID/LAAD progress reviews after each \$1.0 million of loan funds has been committed. In effect, this procedure is a continuing condition precedent to disbursement. There will be a total of six such in-depth reviews covering the following items:

1. Review of projects approved by LAAD Caribe during the review period;
2. Review of LAAD's performance to determine loan compliance and focus on the target group;
3. Review of problem projects and any particular issues; and
4. Other areas of mutual interest to AID and LAAD (e.g., relationships with other financial institutions, new LAAD shareholders, possibilities of securing commercial debt capital).

b) Annual Evaluation

An in-depth evaluation of the loan will be performed annually in conformance with AID requirements. The Logical Framework Matrix (Annex X) and specific statements and indicators therein will be the general basis used for measuring progress being achieved toward goal and purpose targets.

However, given the nature of this project which is to support the expansion and development efforts of a specialized intermediate credit institution, any specific indicators set at this time for expected sub-project results can at best be only estimates, since the full scale analysis of the potential for a sub-project to have positive benefit incidence on our target group and other objectives will not be undertaken until LAAD Caribe is operational and actively considering a sub-project proposal. Therefore, the best mechanism to be used for evaluating the degree to which sub-projects are actually producing the benefits intended is the review of completed and revised Project Assessment Forms\* on each sub-project, together with additional data included on these sub-projects in quarterly reports received by LAAD from their clients. Thus, the

\*Please refer to Annex IX, Exhibit I, "Project Assessment Form"; and Part II, B.5, which explains the manner in which this form is to be used by LAAD/CARIBE to aggregate baseline data and provide for subsequent evaluation of sub-project progress actually achieved.

annual evaluation review will collate and examine the data from these sources to determine overall and specific project progress.

c) Project Performance Network (Annex XIII)

The time-phased periods and progress indicators critical to timely project development will be reviewed periodically by the Project Manager against actual performance by the Borrower, particularly prior to and at the \$1.0 million commitment reviews, and the annual evaluations.

F. Disbursement

Disbursements to LAAD will be made in United States dollars. LAAD requires dollar disbursements to its sub-projects to enable its clients to register their loans/investments with the exchange control authorities in each country, thereby protecting LAAD (and AID) against changes in foreign exchange control regulations.

G. Procurement

Since LAAD is an Intermediate Credit Institution, the procurement regulations of the Capital Project Guidelines do not apply. Also, Small Business Notification will be waived, except in instances of procurement in which LAAD clients elect to carry out a formal competitive bidding procedure.

H. Environmental Considerations

Any potentially undesirable effects of this project, through its sub-project activities, are likely to be minimal. LAAD Caribe financing will not be available for large scale business operations, with the concentration of such assistance directed towards small and medium sized activities (See Illustrative List of Sub-projects attached as Annex VII, Exhibit 3).

To ensure that any such undesirable environmental effects will be recognized prior to sub-project implementation, LAAD Caribe's sub-project analysis methodology will incorporate a focus on environmental considerations relating to a proposed activity, identifying both negative and positive effects, and indicating the manner in which any negative effects can be mitigated or eliminated.

### I. Integrating Women into Development

The proposed new subsidiary of LAAD, LAAD Caribe, will always be a relatively small operation, in terms of numbers of personnel required (probably no more than ten full-time personnel-professionals and clerical - at the end of the project period), and therefore its direct impact in this area of consideration is minimal. However, in its search for both professional and clerical staff for LAAD Caribe and subsequent replacement/expansion of staff as well, AID will require, through Implementation Letter, that LAAD and LAAD Caribe give equal consideration to qualified candidates for any position, regardless of sex.

In terms of its sub-projects, many of the proposed or contemplated activities LAAD Caribe may finance are by their nature activities which incorporate or utilize significant numbers of female employees (e.g., flower growing activities, processing and packaging operations), and therefore, over time, the project may be expected to make a contribution to integrating more women into the development process.

### J. Implementation Schedule

The schedule presented below indicates the timing of major steps in the projected implementation of this loan.

1. DAEC Review of PP: September, 1975
2. Authorization of Loan: December 15, 1975
3. Presentation/Negotiation of Draft Loan Agreement with LAAD: January/February, 1976
4. Execution of Loan Agreement: By February 28, 1976
5. Terminal Date for Satisfaction of Conditions Precedent to Disbursement: August 31, 1976
6. Commitment by LAAD of \$1.0 million of AID funds;  
Joint Progress Review Held: December 31, 1976  
Disbursements Reach \$800,000: February 28, 1977
7. Additional \$1.0 m of AID funds Committed;  
Joint Review Held: June 30, 1977
8. Annual Evaluation Completed: September 30, 1977
9. Additional \$1.0 m of AID funds Committed;  
Joint Review Held: November 30, 1977  
Disbursements Reached \$2.3 m: January 31, 1978
10. Additional \$1.0 m of AID funds committed;  
Joint Review Held: April 30, 1978
11. Annual Evaluation Completed: August 31, 1978
12. Additional \$1.0 m of AID funds committed;  
Joint Review Held: September 30, 1978  
Disbursements Reach \$3.8 m: December 31, 1978
13. Additional \$1.0 m of AID funds committed;  
Joint Review Held: February 28, 1979  
Disbursements Reach \$6.0 m: July 31, 1979
14. Final Evaluation Completed: August 31, 1979

With regard to the programmed commitment and disbursement of loan funds, the successful experience under the first AID/ LAAD project, which also involved the creation of a new LAAD subsidiary and a \$6.0 million AID loan, suggests that LAAD Caribe should easily meet the full three year period for disbursement of funds projected above. Among other facts, the significant number of sub-projects potentially eligible for LAAD Caribe financing which have already been identified by LAAD management strongly supports this judgment. Overall, the Project Committee believes that LAAD has the capacity to meet this schedule.

#### K. Conditions, Covenants, and Negotiating Status

The following conditions and covenants are recommended for inclusion in the loan agreement. These conditions and covenants are essentially similar to those included in the two existing AID loan agreements with LAAD (596-L-011; 596-T-015). Each of those agreements was satisfactorily negotiated without major issues or difficulties, and LAAD indicates the conditions and covenants recommended for this project are acceptable.

#### Conditions

##### 1. Conditions Precedent to Initial Disbursement

Prior to the first disbursement or the issuance of any commitment documents under the loan, the Borrower shall, except as AID may otherwise agree in writing, furnish to AID, in form and substance satisfactory to AID, the following:

(a) a plan for the objective and comprehensive review of all investments and subloans proposed to be made by Borrower or any Caribbean subsidiary of Borrower to assure that such proposed activities are economically justified and technically sound;

(b) a plan for the evaluation of proposed sub-project activities by the Borrower or any Caribbean subsidiary of Borrower under the Program to assure that such proposed activities will produce economic benefits, benefits to rural poor in areas where the proposed activities will be located, and contribute to the development of agribusiness systems or enterprises;

(c) a statement by Borrower and any Caribbean subsidiary of Borrower setting forth the standards and procedures each will follow in authorizing and administering investments and sub-loans;

(d) a statement by Borrower and any Caribbean subsidiary or affiliate of Borrower setting forth the standards and procedures each will follow in providing assistance to clients;

(d) make or permit any Caribbean subsidiary of Borrower to sub-loans or investments which utilize AID loan funds to exceed at any time three (3) times the total of sub-loans or investments financed from capital paid in by Borrower to the Caribbean subsidiary;

(e) make sub-loans to or equity investments in b businesses or other activities in or with respect to which shareholders, officers, or employees of Borrower or any subsidiary of Borrower have an equity interest or any interest through a licensing, royalty, or distributorship agreement;

(f) make sub-loans from AID funds for working capital, except for financing costs of raw materials (inventory);

(g) utilize more than 25 percent of AID funds for eligible sub-projects in Colombia nor less than 20 percent of AID funds for eligible sub-projects in Haiti and the lesser islands and British territories;

(h) permit Borrower's Caribbean subsidiary to maintain a reserve for bad debts of less than three percent (3%) of its total sub-loan portfolio;

(i) appoint as manager of Borrower's Caribbean subsidiary a person whose appointment has not been approved in advance by AID in writing;

(j) declare or pay dividends on shares of its common stock;

(k) declare or pay dividends on either common or preferred shares from sources other than accrued earnings and after adequate reserves for bad debts;

(l) incur any indebtedness for a term exceeding one (1) year without the prior approval of AID;

(m) incur any indebtedness which would enjoy a position superior to the obligation incurred under the AID loan;

(n) amend or modify its corporate charter, by-laws or operating plans or undergo any type of corporate reorganization.

3) Prior to the commitment of more than one million United States dollars (\$1,000,000) of loan funds, and thereafter when successive commitments totalling one million United States dollars (\$1,000,000) have occurred, AID, Borrower and its Caribbean subsidiary shall hold a joint review of the progress of the Program.

4) Repayments of principal from AID funded sub-loans may be used only for those purposes for which the AID loan funds were originally made available.

(e) certified copies of the corporate charters and by-laws of Borrower and a Caribbean subsidiary of Borrower, authorized by the respective Boards of Directors of each which subsidiary will restrict its activities unless AID otherwise agrees in writing, to: the Caribbean countries of Haiti, the Dominican Republic, Jamaica, Barbados, as well as British island territories, but **excepting** Puerto Rica, Cuba, the Bahamas, Trinidad and Tobago, and the Netherlands Antilles; and to the countries of Panama, Belize, Guyana, and Colombia;

(f) a certified copy of the resolution of the Borrower's Board of Directors authorizing and directing Borrower to contribute a minimum of \$2.0 million, acquired from equity capital paid in to the Borrower, to the capital of the Caribbean subsidiary for the program;

(g) an opinion or opinions of counsel, acceptable to AID, that Borrower and any Caribbean subsidiary of Borrower have taken all corporate and legal action required under the laws of the countries in which they propose to do business in order to fulfill their obligations under the loan and to implement the Program effectively;

(h) certified copies of the operating policies of Borrower and any subsidiary of Borrower, including any Caribbean subsidiary authorized by the respective Board of Directors of each, which policies shall include but not necessarily be limited to:

-- an administrative and technical staffing plan of any Caribbean subsidiary,

-- policies controlling the divestment of equity investments to be made in enterprises financed with funds made available under the Program,

(i) a plan for the periodic audit of sub-loans made by Borrower and any subsidiary of Borrower.

#### COVENANTS

2) Except as AID otherwise agrees in writing neither Borrower nor any subsidiary of Borrower shall:

(a) utilize AID loan funds or any repayments of principal from sub-loans made from AID loan funds to pay administrative or operating expenses of Borrower or any subsidiary of Borrower;

(b) permit AID funds to be used to finance any sub-project or to make sub-loans to any sub-borrower in excess of two hundred thousand United States dollars (\$200,000), or the local currency equivalent thereof, or the combined United States dollar and local currency equivalent thereof;

(c) make sub-loans with repayment terms of less than three (3) years;

LATIN AMERICAN  
AGRIBUSINESS  
DEVELOPMENT  
CORPORATION S.A.

100 N. BISCAYNE BOULEVARD, SUITE 901, MIAMI, FLORIDA 33132  
TEL (305) 371-6414 CABLES - LAADDEVCO

May 27, 1975

Mr. Herman Kleine  
Deputy U.S. Coordinator  
Alliance for Progress  
Agency for International Development  
Washington, D.C. 20523

Dear Mr. Kleine:

I wish to apply, herewith, for a loan from the Agency for International Development (AID) to the Latin American Agribusiness Development Corporation (LAAD) of \$6,000,000 at an interest rate of 3% per annum and a term of twenty years, including a five-year grace period on payments of principal.

The entire proceeds of this loan would be utilized by LAAD Caribe S.A., a subsidiary of LAAD, which will be created to operate in the Caribbean and Colombia. The new company will make equity investments and term loans with maturities of no less than three years to agribusiness projects in the Caribbean area and Colombia.

Projects financed with these funds and the \$2 million additional capital to be invested by LAAD into LAAD Caribe would be subject to the following eligibility criteria:

1. Projects which can provide for long term, demonstrable benefit to a substantial number of the rural poor in terms of number of jobs created or increase in income when the beneficiary is a small farmer or the operator of a small agribusiness.
2. Projects which establish LAAD's relationship with critical elements of the integrated farm to market system. Normally such projects will be

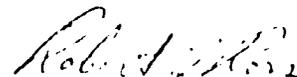
services to agribusinesses which are qualitatively or quantitatively inadequate and constitute a bottleneck to the orderly operation of the integrated system.

3. Non-traditional agribusiness projects which will provide for new, substantial sources of foreign exchange to the host economy.
4. Projects which will provide for substantial value added to the host economy.
5. Projects providing for the production of processed foods which can be justified because they will cause high nutrition foods to be available at lower prices to consumers.
6. Projects which provide for the development of small agribusiness entrepreneurs. The sponsors of projects in this category would normally be at the upper income level of the target group. As a general rule of thumb, projects would be eligible which can normally be expected to provide annual profits to the sponsors of up to \$10,000 a year within two years and which require limited skills and financial input by the sponsor.

These criteria are identical to those we would apply under the expanded AID/LAAD program in Central America.

I am confident that this proposed loan will fully meet the above criteria and that LAAD will be able to build up a significant program in the Caribbean area above and beyond what is contemplated in this loan request. In particular, I am anxious that LAAD and the AID would develop a long term relationship that would extend beyond the financial commitment contemplated herein and would allow a permanent exchange of information and experience in the field of agribusiness and rural development.

Sincerely yours,



Robert L. Ross  
President

RLR:ml

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MANAGEMENT

BIOGRAPHICAL DATA

PRESIDENT LAAD AND LAAD-CA: Mr. Robert L. Ross

Mr. Ross joined LAAD in 1972. He began his career as an economist with the U.N. Economic Commission for Latin America in Washington, D.C., and he next became the Assistant to the Mission Chief of the OAS-ECLA-IDB Planning Mission in Haiti. Following this, Mr. Ross spent three years in Chile as an economist with the Latin American Planning Institute teaching graduate economics courses and doing studies on Latin American Regional Integration. In 1965 he joined Adela Investment Corporation as a staff economist in Peru, and three years later became a vice-president of Adela responsible for developing business opportunities jointly with North American firms in Latin America.

After receiving a B.A. degree in economics from Harvard, Mr. Ross earned his M.A. in economics from Georgetown University.

EXECUTIVE VICE-PRESIDENT LAAD-CA: Mr. Thomas W. Mooney

Mr. Mooney joined LAAD in early 1971 as regional representative for Central America with offices in Guatemala City, after Latin American experience while serving with the World Bank, A.I.D., and the Adela Investment Company.

A graduate of Washington University, Mr. Mooney began his career as an economic officer with the 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).

Prior to his association with LAAD, Mr. Mooney was the Central America and Caribbean representative for the Adela Investment Company. Mr. Mooney joined LAAD-CA at the inception and since then had been responsible for Central American operations. Mr. Mooney has resided in Guatemala for thirteen years.

LAAD - PROJECTIONS - CONSOLIDATED  
Balance Sheets - October 31,  
(\$000)

Page 1 of 2

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
<b>ASSETS</b>											
<b>Cash</b>	\$ 40	\$ 45	\$ 60	\$ 70	\$ 80	\$ 85	\$ 110	\$ 120	\$ 130	\$ 145	\$ 155
LAAD	40	40	50	50	60	60	80	85	90	100	105
CARIBE	-	5	10	20	20	25	30	35	40	45	50
<b>Time Deposits</b>	300	300	300	300	300	300	500	600	800	1,100	1,400
LAAD	300	300	300	300	300	300	500	600	800	1,100	1,400
CARIBE	--	-	-	-	-	-	-	-	-	-	-
<b>Accrued Interest</b>	85	115	155	200	240	270	315	340	385	440	500
LAAD	85	100	120	140	150	160	190	200	225	255	290
CARIBE	-	15	35	60	90	110	125	140	160	185	210
<b>CURRENT ASSETS</b>	\$ 425	\$ 460	\$ 515	\$ 570	\$ 620	\$ 645	\$ 925	\$ 1,060	\$ 1,315	\$ 1,685	\$ 2,055
LAAD	\$ 425	\$ 440	\$ 470	\$ 490	\$ 510	\$ 520	\$ 770	\$ 885	\$ 1,115	\$ 1,455	\$ 1,795
CARIBE	\$ -	\$ 20	\$ 45	\$ 80	\$ 110	\$ 125	\$ 155	\$ 175	\$ 200	\$ 230	\$ 260
<b>Equity - Common</b>	1,050	1,450	1,954	2,450	3,050	3,450	3,950	4,350	4,750	5,150	5,750
LAAD	1,050	1,450	1,854	2,150	2,550	2,750	2,950	3,150	3,350	3,550	3,850
CARIBE	-	-	100	300	500	700	1,000	1,200	1,400	1,600	1,900
<b>- Preferred</b>	1,180	1,480	1,830	2,330	2,830	3,130	3,430	3,730	4,130	4,530	5,030
LAAD	1,180	1,480	1,730	2,030	2,330	2,530	2,730	2,930	3,130	3,330	3,630
CARIBE	-	-	100	300	500	600	700	800	1,000	1,200	1,400
<b>Loan Portfolio</b>	9,630	12,695	16,420	18,680	22,140	24,995	28,815	33,395	38,560	43,965	49,380
LAAD	9,630	11,650	13,605	14,210	15,070	16,665	18,470	21,130	24,170	27,450	30,790
CARIBE	-	1,045	2,815	4,470	7,070	8,330	10,345	12,255	14,390	16,505	18,590
<b>Reserve Against Losses</b>	(385)	(545)	(764)	(950)	(1,200)	(1,450)	(1,790)	(2,160)	(2,620)	(3,130)	(3,700)
LAAD	(385)	(515)	(669)	(785)	(915)	(1,065)	(1,206)	(1,475)	(1,745)	(2,045)	(2,385)
CARIBE	-	(30)	(95)	(165)	(285)	(385)	(525)	(685)	(875)	(1,085)	(1,315)
<b>TOTAL PORTFOLIO</b>	\$11,475	\$15,080	\$19,440	\$22,510	\$26,310	\$30,125	\$34,405	\$39,305	\$44,820	\$50,505	\$56,460
LAAD	\$11,475	\$14,065	\$16,520	\$17,605	\$19,035	\$20,880	\$22,885	\$25,735	\$28,905	\$32,285	\$35,885
CARIBE	\$ -	\$ 1,015	\$ 2,920	\$ 4,905	\$ 7,285	\$ 9,245	\$11,520	\$13,570	\$15,915	\$18,220	\$20,575
<b>Other Assets</b>	75	75	65	55	45	30	20	10	5	5	5
LAAD	75	65	55	45	35	25	15	5	-	-	-
CARIBE	-	10	10	10	10	10	5	5	5	5	5
<b>TOTAL ASSETS</b>	\$11,975	\$15,615	\$20,020	\$23,135	\$27,485	\$30,800	\$35,350	\$40,375	\$46,140	\$52,195	\$58,520
LAAD	\$11,975	\$14,570	\$17,045	\$18,140	\$19,580	\$21,425	\$23,670	\$26,625	\$30,020	\$33,740	\$37,680
CARIBE	\$ -	\$ 1,045	\$ 2,975	\$ 4,995	\$ 7,905	\$ 9,375	\$11,680	\$13,750	\$16,120	\$18,455	\$20,840

LAAD - PROJECTIONS - CONSOLIDATED  
Balance Sheets - October 31,  
(\$000)

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
<b>LIABILITIES</b>											
Interest Payable - AID	\$ 50	\$ 70	\$ 95	\$ 110	\$ 120	\$ 125	\$ 105	\$ 100	\$ 90	\$ 85	\$ 75
LAAD	50	65	80	80	75	70	65	60	55	50	45
CARIBE	-	5	15	30	45	45	40	40	35	35	30
Interest Payable - Other	10	10	5	15	25	45	75	110	160	210	260
LAAD	10	10	5	15	25	35	50	75	110	140	175
CARIBE	-	-	-	-	-	10	25	35	50	70	85
CURRENT LIABILITIES	\$ 60	\$ 80	\$ 105	\$ 125	\$ 145	\$ 160	\$ 180	\$ 210	\$ 250	\$ 295	\$ 335
LAAD	\$ 60	\$ 75	\$ 85	\$ 95	\$ 100	\$ 105	\$ 115	\$ 135	\$ 165	\$ 190	\$ 220
CARIBE	\$ -	\$ 5	\$ 15	\$ 30	\$ 45	\$ 55	\$ 65	\$ 75	\$ 85	\$ 105	\$ 115
Long Term Debt - AID	\$ 7,000	\$ 9,800	\$ 13,105	\$ 14,215	\$ 16,025	\$ 15,635	\$ 14,525	\$ 13,415	\$ 12,305	\$ 11,195	\$ 10,085
LAAD	7,000	9,000	10,805	10,415	10,025	9,635	8,915	8,195	7,475	6,755	6,035
CARIBE	-	800	2,300	3,800	6,000	6,000	5,610	5,220	4,830	4,440	4,050
Long Term Debts - Other	1,000	800	600	1,400	2,450	4,625	8,575	13,575	19,175	24,975	30,975
LAAD	1,000	800	600	1,400	2,450	3,625	5,825	8,575	11,675	14,975	18,475
CARIBE	-	-	-	-	-	1,000	2,750	5,000	7,500	10,000	12,500
TOTAL LONG TERM DEBT	\$ 8,000	\$ 10,600	\$ 13,705	\$ 15,615	\$ 18,475	\$ 20,260	\$ 23,100	\$ 26,990	\$ 31,480	\$ 36,170	\$ 41,060
LAAD	\$ 8,000	\$ 9,800	\$ 11,405	\$ 11,815	\$ 12,475	\$ 13,260	\$ 14,740	\$ 16,770	\$ 19,150	\$ 21,730	\$ 24,510
CARIBE	\$ -	\$ 800	\$ 2,300	\$ 3,800	\$ 6,000	\$ 7,000	\$ 8,360	\$ 10,220	\$ 12,330	\$ 14,440	\$ 16,550
TOTAL LIABILITIES	\$ 8,060	\$ 10,680	\$ 13,805	\$ 15,740	\$ 18,620	\$ 20,420	\$ 23,280	\$ 27,200	\$ 31,730	\$ 36,465	\$ 41,395
LAAD	\$ 8,060	\$ 9,875	\$ 11,490	\$ 11,910	\$ 12,575	\$ 13,365	\$ 14,855	\$ 16,905	\$ 19,315	\$ 21,920	\$ 24,730
CARIBE	\$ -	\$ 805	\$ 2,315	\$ 3,830	\$ 6,045	\$ 7,055	\$ 8,425	\$ 10,295	\$ 12,415	\$ 14,545	\$ 16,665
<b>EQUITY</b>											
Common Stock	\$ 3,050	\$ 3,350	\$ 3,850	\$ 4,600	\$ 5,600	\$ 6,400	\$ 7,200	\$ 7,200	\$ 7,200	\$ 7,200	\$ 7,200
LAAD	3,050	3,050	3,050	3,300	3,600	4,000	4,000	4,000	4,000	4,000	4,000
CARIBE	-	300	800	1,300	2,000	2,400	3,200	3,200	3,200	3,200	3,200
Preferred Stock - LAAD	500	1,100	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700
Retained Earnings	365	485	665	1,095	1,565	2,260	3,170	4,275	5,510	6,830	8,225
LAAD	365	545	805	1,230	1,705	2,360	3,115	4,020	5,005	6,120	7,250
CARIBE	-	(60)	(140)	(135)	(140)	(80)	55	255	505	710	975
TOTAL EQUITY	\$ 3,915	\$ 4,935	\$ 6,215	\$ 6,395	\$ 8,865	\$ 10,380	\$ 12,070	\$ 13,175	\$ 14,410	\$ 15,730	\$ 17,125
LAAD	\$ 3,915	\$ 4,695	\$ 5,555	\$ 6,230	\$ 7,005	\$ 8,060	\$ 8,815	\$ 9,720	\$ 10,705	\$ 11,820	\$ 12,950
CARIBE	\$ -	\$ 240	\$ 660	\$ 1,165	\$ 1,860	\$ 2,320	\$ 3,255	\$ 3,455	\$ 3,705	\$ 3,910	\$ 4,175
TOTAL LIABILITIES AND EQUITY	\$ 11,975	\$ 15,615	\$ 20,020	\$ 23,135	\$ 27,485	\$ 30,800	\$ 35,350	\$ 40,375	\$ 46,140	\$ 52,195	\$ 58,520
LAAD	\$ 11,975	\$ 14,570	\$ 17,045	\$ 18,140	\$ 19,580	\$ 25,425	\$ 23,670	\$ 26,625	\$ 30,020	\$ 33,740	\$ 37,680
CARIBE	\$ -	\$ 1,045	\$ 2,975	\$ 4,995	\$ 7,905	\$ 9,375	\$ 11,680	\$ 13,750	\$ 16,120	\$ 18,455	\$ 20,840

LAAD - PROJECTIONS - CONSOLIDATED  
 Profit and Loss Statements - Y/E 10'31  
 (\$000)

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
<b>REVENUE</b>											
Interest Earned	\$ 775	\$ 985	\$ 1,305	\$ 1,650	\$ 1,920	\$ 2,190	\$ 2,510	\$ 2,890	\$ 3,340	\$ 3,820	\$ 4,340
LAAD	775	935	1,130	1,310	1,390	1,490	1,650	1,860	2,130	2,420	2,740
CARIBE	-	50	175	340	530	700	860	1,030	1,210	1,400	1,600
Dividends Earned	120	135	185	220	325	405	455	510	575	670	780
LAAD	120	135	180	200	265	335	375	420	465	520	560
CARIBE	-	-	5	20	60	70	80	90	110	150	220
Capital Gains	-	25	50	150	225	500	950	1,280	1,610	1,810	1,885
LAAD	-	25	50	150	225	450	800	1,000	1,200	1,400	1,400
CARIBE	-	-	-	-	-	50	150	280	410	410	485
Other Revenue	30	35	40	45	55	60	65	70	85	105	135
LAAD	30	35	40	45	50	50	50	50	60	75	100
CARIBE	-	-	-	-	5	10	15	20	25	30	35
<b>TOTAL REVENUE</b>	<b>\$ 905</b>	<b>\$ 1,180</b>	<b>\$ 1,580</b>	<b>\$ 2,065</b>	<b>\$ 2,525</b>	<b>\$ 3,125</b>	<b>\$ 3,980</b>	<b>\$ 4,750</b>	<b>\$ 5,610</b>	<b>\$ 6,405</b>	<b>\$ 7,140</b>
LAAD	\$ 905	\$ 1,130	\$ 1,400	\$ 1,705	\$ 1,930	\$ 2,325	\$ 2,875	\$ 3,330	\$ 3,855	\$ 4,415	\$ 4,800
CARIBE	\$ -	\$ 50	\$ 180	\$ 360	\$ 595	\$ 800	\$ 1,105	\$ 1,420	\$ 1,755	\$ 1,990	\$ 2,340
<b>EXPENSE</b>											
Interest Expense - AID	170	250	345	410	455	470	440	400	365	330	290
LAAD	170	240	300	320	305	290	265	240	215	190	165
CARIBE	-	10	45	90	150	180	175	160	150	140	125
- Other	20	70	55	80	150	275	480	820	1,290	1,770	2,240
LAAD	20	70	55	80	150	240	340	510	790	1,070	1,340
CARIBE	-	-	-	-	-	35	140	310	500	700	900
Operating Expense	400	560	735	970	1,090	1,300	1,440	1,595	1,755	1,905	2,075
LAAD	400	490	585	680	760	850	925	1,005	1,090	1,170	1,255
CARIBE	-	70	150	195	330	450	515	590	665	735	820
<b>TOTAL EXPENSE</b>	<b>\$ 590</b>	<b>\$ 880</b>	<b>\$ 1,135</b>	<b>\$ 1,365</b>	<b>\$ 1,695</b>	<b>\$ 2,045</b>	<b>\$ 2,360</b>	<b>\$ 2,815</b>	<b>\$ 3,410</b>	<b>\$ 4,005</b>	<b>\$ 4,605</b>
LAAD	\$ 590	\$ 800	\$ 940	\$ 1,080	\$ 1,215	\$ 1,380	\$ 1,530	\$ 1,755	\$ 1,095	\$ 2,430	\$ 2,760
CARIBE	\$ -	\$ 80	\$ 195	\$ 285	\$ 480	\$ 665	\$ 830	\$ 1,060	\$ 1,315	\$ 1,575	\$ 1,845
<b>OPERATING INCOME</b>	<b>\$ 315</b>	<b>\$ 300</b>	<b>\$ 445</b>	<b>\$ 700</b>	<b>\$ 830</b>	<b>\$ 1,110</b>	<b>\$ 1,620</b>	<b>\$ 1,935</b>	<b>\$ 2,200</b>	<b>\$ 2,400</b>	<b>\$ 2,535</b>
LAAD	\$ 315	\$ 330	\$ 460	\$ 625	\$ 715	\$ 945	\$ 1,345	\$ 1,575	\$ 1,760	\$ 1,985	\$ 2,040
CARIBE	\$ -	\$ (30)	\$ (15)	\$ 75	\$ 115	\$ 165	\$ 275	\$ 360	\$ 440	\$ 415	\$ 495
Reserve Against Losses	150	160	215	190	250	250	340	370	460	510	570
LAAD	150	130	150	120	130	150	200	210	270	300	340
CARIBE	-	30	65	70	120	100	140	160	190	210	230
Amortization	10	10	10	10	10	15	10	10	5	-	-
LAAD	10	10	10	10	10	10	10	10	5	-	-
CARIBE	-	-	-	-	-	5	-	-	-	-	-
<b>NET INCOME</b>	<b>\$ 155</b>	<b>\$ 130</b>	<b>\$ 220</b>	<b>\$ 500</b>	<b>\$ 570</b>	<b>\$ 845</b>	<b>\$ 1,270</b>	<b>\$ 1,555</b>	<b>\$ 1,735</b>	<b>\$ 1,890</b>	<b>\$ 1,955</b>
LAAD	\$ 155	\$ 190	\$ 300	\$ 495	\$ 575	\$ 785	\$ 1,135	\$ 1,355	\$ 1,485	\$ 1,685	\$ 1,700
CARIBE	\$ -	\$ (60)	\$ (80)	\$ 5	\$ (5)	\$ 60	\$ 135	\$ 200	\$ 250	\$ 205	\$ 265

LAAD - PROJECTIONS - CONSOLIDATED

Cash Flow - Y/E 10/31  
(S000)

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
<b>SOURCE OF FUNDS</b>											
Equity - U.S.A.	\$ 700	\$ 900	\$ 1,100	\$ 500	\$ 700	\$ 400	\$ 800	\$ -	\$ -	\$ -	\$ -
LAAD	700	600	600	-	-	-	-	-	-	-	-
CARIBE	-	300	500	500	700	400	800	-	-	-	-
Equity - Latin America				250	300	400	-	-	-	-	-
LAAD	-	-	-	250	300	400	-	-	-	-	-
CARIBE	-	-	-	-	-	-	-	-	-	-	-
Long Term Debts - AID	2,200	2,800	3,500	1,500	2,200	-	-	-	-	-	-
LAAD	2,200	2,000	2,000	-	-	-	-	-	-	-	-
CARIBE	-	800	1,500	1,500	2,200	-	-	-	-	-	-
- Other	1,000	-	-	1,000	1,500	3,000	5,000	7,000	9,000	11,000	13,000
LAAD	1,000	-	-	1,000	1,500	2,000	3,000	4,000	5,000	6,000	7,000
CARIBE	-	-	-	-	-	1,000	2,000	3,000	4,000	5,000	6,000
Operating Income	315	300	445	700	830	1,110	1,620	1,935	2,200	2,400	2,535
LAAD	315	330	460	625	715	945	1,345	1,575	1,760	1,985	2,040
CARIBE	-	(30)	(15)	75	115	165	275	360	440	415	495
Loan Repayments	800	1,250	2,230	2,840	3,760	4,490	5,770	6,470	7,660	8,920	10,650
LAAD	800	1,250	2,100	2,400	2,800	2,850	3,500	3,700	4,300	5,000	6,100
CARIBE	-	-	130	440	960	1,640	2,270	2,770	3,360	3,920	4,550
Sale of Equity - Common	-	-	-	100	100	100	400	600	800	900	900
LAAD	-	-	-	100	100	100	400	500	600	700	700
CARIBE	-	-	-	-	-	-	-	100	200	200	200
- Preferred		100	150	100	200	400	600	700	800	900	1,000
LAAD	-	100	150	100	200	300	400	500	600	700	700
CARIBE	-	-	-	-	-	100	200	200	200	200	300
Annual Interest Payable	20	20	15	25	20	15	20	30	40	45	40
LAAD	20	15	10	10	5	5	10	20	30	25	30
CARIBE	-	5	5	15	15	10	10	10	10	20	10
Sale, Short Term Notes	200	-	-	-	-	-	-	-	-	-	-
LAAD	200	-	-	-	-	-	-	-	-	-	-
CARIBE	-	-	-	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>\$ 5,235</b>	<b>\$ 5,370</b>	<b>\$ 7,445</b>	<b>\$ 7,015</b>	<b>\$ 9,640</b>	<b>\$ 9,915</b>	<b>\$14,210</b>	<b>\$16,735</b>	<b>\$20,500</b>	<b>\$24,165</b>	<b>\$28,125</b>
LAAD	<b>\$ 5,235</b>	<b>\$ 4,295</b>	<b>\$ 5,320</b>	<b>\$ 4,485</b>	<b>\$ 5,620</b>	<b>\$ 6,800</b>	<b>\$ 8,655</b>	<b>\$10,295</b>	<b>\$12,290</b>	<b>\$14,410</b>	<b>\$16,370</b>
CARIBE	<b>\$ -</b>	<b>\$ 1,075</b>	<b>\$ 2,125</b>	<b>\$ 2,530</b>	<b>\$ 4,020</b>	<b>\$ 3,115</b>	<b>\$ 5,555</b>	<b>\$ 6,440</b>	<b>\$ 8,210</b>	<b>\$ 9,755</b>	<b>\$11,555</b>

LAAD - PROJECTIONS - CONSOLIDATEDCash Flow - Y/E 10/31

(\$000)

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
<b>APPLICATION OF FUNDS</b>											
Cash	\$ 10	\$ 15	\$ 25	\$ 10	\$ 10	\$ 5	\$ 25	\$ 10	\$ 10	\$ 15	\$ 10
LAAD	10	-	10	-	10	-	20	5	5	5	5
CARIBE	-	15	15	10	-	5	5	5	5	5	5
Time Deposits	(200)	-	-	-	-	-	200	100	200	300	300
LAAD	(200)	-	-	-	-	-	200	100	200	300	300
CARIBE	-	-	-	-	-	-	-	-	-	-	-
Equity - Common	400	400	500	600	700	700	900	1,000	1,200	1,300	1,500
LAAD	400	400	400	400	500	500	600	700	800	900	1,000
CARIBE	-	-	100	200	200	200	300	300	400	400	500
- Preferred	400	400	500	600	700	700	900	1,000	1,200	1,300	1,500
LAAD	400	400	400	400	500	500	600	700	800	900	1,000
CARIBE	-	-	100	200	200	200	300	300	400	400	500
Agribusiness Loans	4,615	4,315	5,955	5,100	7,220	7,345	9,590	11,040	12,835	14,315	16,075
LAAD	4,615	3,270	4,055	3,005	3,660	4,445	5,305	6,360	7,340	8,280	9,440
CARIBE	-	1,045	1,900	2,095	3,560	2,900	4,285	4,680	5,495	6,035	6,635
Accrued Interest Receivable	10	30	40	45	40	20	55	25	45	55	60
LAAD	10	15	20	20	10	10	30	10	25	30	35
CARIBE	-	15	20	25	30	10	25	15	20	25	25
Loan Repayments - AID	-	-	195	390	390	390	1,110	1,110	1,110	1,110	1,110
LAAD	-	-	195	390	390	390	720	720	720	720	720
CARIBE	-	-	-	-	-	-	390	390	390	390	390
- Other	-	200	200	200	450	825	1,050	2,000	3,400	5,200	7,000
LAAD	-	200	200	200	450	825	800	1,250	1,900	2,700	3,500
CARIBE	-	-	-	-	-	-	250	750	1,500	2,500	3,500
Dividends - LAAD	-	10	40	70	100	130	380	450	500	570	570
Organization Expenses - CARIBE	-	10	-	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>\$ 5,235</b>	<b>\$ 5,370</b>	<b>\$ 7,445</b>	<b>\$ 7,015</b>	<b>\$ 9,640</b>	<b>\$ 9,915</b>	<b>\$14,210</b>	<b>\$16,735</b>	<b>\$20,500</b>	<b>\$24,165</b>	<b>\$ 28,125</b>
LAAD	\$ 5,235	\$ 4,295	\$ 5,320	\$ 4,485	\$ 5,620	\$ 6,800	\$ 8,655	\$10,295	\$12,290	\$14,410	\$ 16,570
CARIBE	\$ -	\$ 1,075	\$ 2,125	\$ 2,530	\$ 4,020	\$ 3,115	\$ 5,555	\$ 6,440	\$ 8,210	\$ 9,755	\$ 11,555

LAAD-CARIBE-PROJECTIONS

ASSUMPTIONS

1. A new AID loan will be received with a 20 year term, a five year grace period and an interest rate of 3%. Disbursement will begin in FY 1975/76.
2. All other long-term borrowing will be for five years at an interest rate of 8%. If the actual interest rate is higher, LAAD will be able to maintain an average spread of 1.5%.
3. LAAD will maintain an average lending rate of 9.5% and the average term of sub-loans will be five years with one year's grace.
4. Preferred shares in the equity portfolio are assumed to yield at 9% annual dividend beginning in year one. Common stock investments yield nominal dividends for four years and 10% thereafter.
5. Capital gains are projected under the assumption that 25-30% of the equity holdings are sold each year yielding a discounted rate of 15%. This assumption is based upon ADELA's experience.
6. Operating expenses are based upon experience and a staff programed to reach nine people by 1980.
7. No dividends on LAAD-CARIBE's Common Stock, within the projection period.
8. The bad debt reserve will not be exceeded by losses on the equity and loan portfolios. Three percent of each year's disbursements for equity investments and sub-loans is added to the bad debt reserve by a charge against income.
9. Additional significant amounts of managerial and technical assistance will be provided to LAAD-CARIBE investment and borrower companies at substantially no cost.

LAAD-Caribe

Illustrative Sub-Loan Portfolio

DOMINICAN REPUBLIC

El Torito Dominicano, S.A. \$100,000 loan

Purpose: Modernize a slaughterhouse in Santo Domingo to produce processed meats for export. Cattle all come from small farmers. Project will upgrade cattle business and provide incentives for further production, leading to value added and higher prices to farmers. LAAD will assist in the marketing.

Flores Dominicanos \$50,000 loan

Purpose: Expand flower growing operation in Constanza and increase production by building more greenhouses. High employment and value-added factors involving a non-traditional product for export.

Tomato Paste Company \$250,000 loan

Purpose: Provide new plant equipment to expand tomato production for export. All produce will come from small farmers and will give them a previously unavailable steady market.

Fumigation Station \$30,000 loan

Purpose: Build new facility to fumigate fresh fruits and vegetables for export. All products grown by small farmers. Now fumigated in New York, where there is high damage incidence. Project will greatly reduce this wastage.

Styrofoam Box Plant \$100,000 loan

Purpose: Build a new plant to produce styrofoam boxes and speedling trays to package fresh fruits and vegetables for export markets. Crops grown by small farmers. Project will lead to a great reduction in current damage (and therefore wastage) rate.

Pineapple Processing Plant \$300,000 loan

Purpose: Build a new plant on North Coast to process pineapple rejects for export (cut into slices, chunks; make syrups, jams, and pulp). High rural employment.

Dehydration Plant \$150,000 loan

Purpose: Build new plant in La Veje to dehydrate garlic, onions, and other crops for export. High direct and indirect employment. The production is in place, but need means to reduce wastage and tap export markets. All produce from small farmers.

Pickle Factory \$50,000 loan

Purpose: Build new plant to process cucumbers for local and export markets. Crops produced by small farmers.

SUBTOTAL - 8 Projects, value \$1,030,000

HAITI

Tomaco, S.A. \$50,000 loan

Purpose: Expand production of vegetable processing operation in Pond Sonde. Will process and can tomato paste for local market and brine and okra for export. All of products come from small farmers. Plant will provide tractoring services for small farmers.

Banque de l' Union Haitienne \$400,000 loan

Purpose: To provide a credit line for small farmers to the only private commercial bank which has rural branches. Fills obvious systems gap, since credit for non-traditional crop production is not available.

Fabrique de Conserved de  
Fruits et de Legumes, S.A. \$300,000 loan

Purpose: Build new processing facility on the South Coast (Les Cayes) for vegetable and fruit canning. Will mainly process tomatoes, mangos, vegetables in area where there is no market for small farmer production. LAAD will supply the technical assistance.

North Coast Canning Company \$300,000 loan

Purpose: Build new processing facility for the North Coast area (Cap Haitian). Same concept and characteristics as preceding one: high employment, small farmer production, marketing services, value added, non-traditional crops.

Fabrique de Chocolat \$100,000 loan

Purpose: Build new plant to process cocoa bean into chocolate for export. All inputs are small farmer produced; LAAD will handle marketing.

SUBTOTAL: 5 projects, value \$1,150,000

COLOMBIA

Grajales Hnos \$400,000 loan

Purpose: Expand area under cultivation in La Guajira (La Union Valle) for production and export of table grapes. Money for plant stock and construction of packing plant. Company works with small farmers in grape business; purchases and markets grapes for them. High rural employment (direct and indirect) factors.

Cooperativa de Produccion y de Mercadeo \$200,000 loan

Purpose: Expand production of fresh vegetables in Fusagazuga for processing. Provide small and medium farmers cooperative with credit to purchase seed, fertilizer, farm implements, and packing sheds for classification. A nearby dehydration plant urgently needs production.

Vegetables Secos, S.A. \$200,000 loan

Purpose: Build new dehydration plant in Facatativa to process garlic and onions, at first for local market and later for export. All products from small farmers. Project will lead to high direct and indirect rural employment.

Consortio Agropecuario de la Guajira, S.A. \$500,000 loan

Purpose: Clear 1,000 hectares of land for growing vegetables and construct tomato paste processing plant, almost entirely for export market. High rural employment factor. LAAD will handle marketing in U.S. and introduce specialized products like pizza sauce.

Tamayo Ramirez y Cia

\$500,000 loan &  
equity

Purpose: Build castor oil processing plant in Western Colombia (Buenaventura) for export. Expand castor bean production in Haila. All production comes from small farmers; at present they have no marketing or processing outlets.

Compania de Muebles

\$100,000 loan

Purpose: Expand production of furniture parts in rural area (Chiva) for export. All parts hand made; all wood locally bought. LAAD will handle marketing.

SUBTOTAL: 6 Projects, value \$1,900,000

JAMAICA

Montego Ice Company

\$200,000 loan

Purpose: Enable ice company on North Coast to expand and diversify into frozen vegetable operations, mostly for export. Production from small farmers.

Pimento Processing Plant

\$200,000 loan

Purpose: Build plant to process pimento into pimento oil and pimento leaf oil for export. High employment (small farmer produced) factor.

Vineyards Ltd.

\$200,000 loan

Purpose: Enable existing company to expand production into table grapes, largely for local market. (Grapes, a non-traditional product, now imported). High hand labor (employment) factor.

Grace Kennedy & Co.

\$250,000 loan

Purpose: Expand poultry processing and marketing facility in rural area, for local market. Plant will purchase chickens from small farmers and assure them of a steady market.

SUBTOTAL: 4 projects, value \$850,000

BELIZE

Citrus Company of Belize Ltd.

\$200,000 loan

Purpose: Expand citrus production (thru the purchase

of orange tree stock) for processing and canning plant.  
A non-traditional product for export. High rural employment  
(hand labor).

Mango Company \$50,000

Purpose: Expand production of mangos for export.  
High rural employment. LAAD will handle the marketing.

Tropical Plants Company \$50,000 loan

Purpose: Purchase greenhouses for expansion of  
tropical plants, especially ferns, for export. High  
employment (hand labor) of a non-traditional product.

SUBTOTAL: 3 Projects, value \$300,000

PANAMA

Administracion, Estudios, y \$500,000 loan  
Asesoramientos, S.A.

Purpose: Provide line of credit to a multi-purpose  
agribusiness development project being sponsored by the  
Government of Panama with the specific objective of  
developing model farms for small farmer production of  
non-traditional products.

Melo y Cia \$300,000 loan

Purpose: Assist a diversified agroindustrial company  
to develop a new wood processing complex along the lines  
of International Wood Products. This could be a possible  
tie in with International Wood Products; the two companies  
have technology which complement one another.

SUBTOTAL: 2 Projects, value \$800,000

GRAND CAYMAN ISLANDS

Caledonian Farms Ltd. \$110,000 loan

Purpose: Purchase boats to expand production of fish  
and shellfish and their processing for export markets.  
High employment, LAAD will handle marketing.

SUBTOTAL: 1 Project, value \$100,000

GRAND TOTAL: 30 Projects, value \$6,240,000

INITIAL QUESTIONNAIRE

1. Name and address of applicant.
2. New or existing company.
3. When was business established (in case of new activity, give estimated date of (a) formation of the company, and (b) initiation of production).
4. Purpose of Activity, principal products, and brief description of physical facilities.
5. Names and nationalities of principal shareholders/sponsors (please include curriculum vitae of principals).
6. Name(s) of key management (please include curriculum vitae with emphasis on experience/background in applicant's principal activity).
7. Present total equity.
8. Present total debt:
  - (a) less than one year; maturities, interest rates
  - (b) more than one year; maturities, interest rates
9. Amount requested from LAAD:
  - Debt
  - Equity
  - Other (describe)
10. Projected use of funds.
11. Total cost of project.
12. Source of balance of funds.

13. **Market:**
  - (a) location
  - (b) total present annual sales (volume and dollars)
  - (c) historical and projected annual growth of market.
  - (d) estimated percentage of total market served by applicant according to product line.
  - (e) estimated total annual sales after completion of this project.
  - (f) estimated percentage of total market served by applicant according to product line, after completion of this project.
  - (g) principal competition.
14. **Names of all banks with which relationship exists (include personal accounts of sponsors; as well as corporate accounts); describe nature of the relationship.**
15. **A brief summary of the opportunities and risks this project represents for LAAD**

Please enclose most current audited balance sheet and income statement and audited statements for three previous years of operation, or proforma statements in case the project is a new one and the company is not yet in operation.

**PROJECT ASSESSMENT FORM**  
**(Pre-funding Analysis)**

A. Name and Description of Proposed Project:

B. Areas of Intended Goal Impact  
 Under LAAD/AID III Project

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Description of Type/Nature  
 of Effect to be Produced

---

Baseline Data and  
 Quantitative Indicators  
 --Estimated Outputs  
 Over 3-5 Yr. Period

Yr:	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>
-----	----------	----------	----------	----------	----------

1. Target Group Benefit Incidence

- a. Employment
  - Direct (as % total employment)
  - Indirect
- b. Income
  - Salaries
  - Other (benefits) - as % of total paid
- c. Increased Production/Productivity
  - New Methodology Imparted
  - Higher Skills Introduced
- d. Rural Development
  - Plant/Operations Located in High Unemployment Rural Area
  - Local Value-Added
- e. Other

ANNEX IX  
 Exhibit 2

UNCLASSIFIED

2. Agribusiness Systems Development

- a. New or Expanded Market Development
- b. New, Non-Traditional Product Development
- c. Increased Systems Efficiency/Removal of Constraints-Bottlenecks
- d. Other (e.g., provide specialized support/assistance to existing/future LAAD sub-projects)

3. (Macro) Economic Benefits

- a. Increased Value-Added - Regionally/Nationally
  - b. Foreign Exchange Produced
  - c. Foreign Exchange Saved (Import Substitution)
  - d. Medium-Longer Term Industry Sector Growth Possibilities
  - e. Other (Plant-equipment supplies procured largely from local sources; etc.)
  - F. Increased Food Production
- C. Evaluation: Quality of proposed project vis-á-vis achievement of above three goals.

LAAD/Caribe  
Initial Project Selection/Screening Criteria

LAAD/Caribe will make determinations of a proposed sub-project's impact on the target group of rural poor and small farmers according to the criteria presented below to determine if minimum required conditions would exist in the sub-project to assure that members of the target group will be priority beneficiaries. Upon demonstration that these criteria will be satisfied, LAAD/Caribe will proceed to make the more complete sub-project analysis indicated by the "Project Assessment Form."

Category A Projects (Projects Creating Significant Direct Employment)

1. Evidence that the proposed plant is or will be located in an area where members of the target group exist, or that the sub-project benefits of employment creation and/or other indirect benefits, will be directed to an area where the target group members are located; and that the members of the target group, as opposed to individuals of higher incomes and living standards are expected to be important beneficiaries of the proposed activity.

2. Total incremental fixed investment per job created (adjustable over time for inflation) does not exceed \$7,500.

Category B Projects (Creation of Indirect Benefits)

1. Same as No. 1 above.

2. Evidence that the proposed project involves the development, processing, or handling, etc., of typical small farmer crops.

3. Evidence that the proposed sub-project incorporates one or more of the accepted methods or linkages which assure active participation of members of the target group in the sub-projects economic activities.



PURPOSE	END OF PROJECT STATUS	MEANS OF VERIFICATION				ASSUMPTIONS
The purposes of the project are:						
a) to support the expansion of LAAD's agribusiness development activities into the Caribbean and North Coast areas, and thereby	a) LAAD/CARIBE - Paid in Equity Capitalization - Long term loans - Total Investment Portfolio - Net Income	<i>(6/30/76-10/31/76)</i> H 300 800 1,045 (60)	<i>(11/1/76-10/31/77)</i> H 800 2,300 2,915 (80)	<i>(11/1/77-10/31/78)</i> H 1,300 3,800 4,770 5	<i>(11/1/78-5/30/79)</i> F 2,000 6,000 7,570 (5)	a) LAAD/CARIBE monthly and quarterly reports  b) LAAD,S.A. quarterly reports; audited annual report.
b) to contribute to LAAD's development of a base and focus of operations sufficient in size and scope to permit operating economies of scale, and to attract expanding shareholder participation for future growth.	b.1) LAAD,S.A. (Parent Co.) - Paid in equity capitalization - New Shareholders - Total Profitability - Return on Net Worth - Commercial Debt Secured  2) LAAD Marketing Co. - No. of new affiliations - Volume of sales (\$000)	4,450 1 190 3.8 800  X ( )	5,500 2 300 4.8 600  1 ( )	6,300 2 495 7.7 1,400  1 ( )	7,300 1 575 6.5 2,450  1 ( )*	b) No major losses in LAAD's total investment portfolio beyond those normally to be encountered. Over time, conditions in equity markets will be favorable for LAAD's sales of its equity markets will be favorable for LAAD's sales of equity investments and its own stock.

\* Data for this indicator will be compiled after first \$1.0M review.

OUTPUTS	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
1) The formation of LAAD/CARIBE, as a subsidiary of LAAD, S.A. in charge of Caribbean operations, performing the following activities:	1) Articles of incorporation approved; commencement of operations.		1) Policies of governments in the region will continue to favor and/or encourage private investment in agribusiness activities 2) LAAD will successfully identify and recruit highly qualified managerial talent required for its Caribbean operations. 3) No major natural disasters (hurricanes, etc.) occur affecting LAAD sub-projects.
a. sub-project identification, promotion and development, implementation;	a) LAAD/CARIBE sub-projects financed.	a) LAAD/CARIBE reports.	
b. provision of technical assistance to sub-projects	b) LAAD/CARIBE staff recommendations re. project assistance needed, and suggested means of providing/acquiring it.	b) LAAD/CARIBE reports.	
c. administration of an adequate credit system, including sub-project monitoring, to assure repayment of loans by sub-borrowers.	c) Sub-project objectives are being met; sub-loan interest/principal payments are being received; delinquencies are minimal or not excessive; payments to AID on interest due are met.	c) LAAD/CARIBE reports.	

INPUTS	OBJECTIVELY VERIFIABLE INDICATORS				MEANS OF VERIFICATION	ASSUMPTIONS
	<u>I</u>	<u>II</u>	<u>III</u>	<u>IV</u>		
a) AID loan	a) \$ 500	2,300	3,800	6,000	a) AID Records b) Reports of Project Status Reviews c) LAAD Reports	No unexpected problems in meeting implementation timetables.
b) LAAD equity counterpart	b) 300	800	1,300	2,000		
c) Syb-Borrower Contributions	c) x	x	x	x		
d) Other Funds (Banks, etc.)	d) x	x	x	x		
e) Technical Assistance from LAAD, LAAD shareholders, and clients.	e) x	x	x	x		

(x) = no quantifiable targets possible.

LOAN AUTHORIZATION

A.I.D. Loan NO. 538-T-004

Provided from: FAA Section 103 ("Food and Nutrition")  
For: Caribbean Regional: LAAD Agribusiness Development

Pursuant to the authority vested in the Deputy U.S. Coordinator, Alliance for Progress, by the Foreign Assistance Act of 1961, as amended ("the Act"), and the delegations of authority issued thereunder, I hereby authorize the establishment of a loan ("Loan") pursuant to Section 103 of the Act, and in furtherance of the Alliance for Progress, to the Latin American Agribusiness Development Corporation, S.A., a Panamanian corporation ("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 ("Program") to provide long-term financing and technical assistance for the promotion, development and expansion of agribusiness enterprises and systems with emphasis on activities involving food production in selected countries of the Caribbean Basin and South America. An amount not to exceed the equivalent of two hundred thousand United States dollars (\$200,000) may be used for feasibility studies and technical assistance. The loan shall be subject to the following terms and conditions:

I. 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 date of the first disbursement under the loan, including a grace period of not to exceed five (5) years. Borrower shall pay to A.I.D. in United States dollars on the disbursed balance of the loan interest at the rate of four percent (4%) per annum.

II. Source and Origin

Goods, services (except for ocean shipping) and marine insurance financed under the loan shall have their source origin in countries of the project area or in countries included in Code 941 of the A.I.D. Geographic Code Book.

Marine insurance may be financed under the loan only if it is obtained on a competitive basis and any claims thereunder are payable in freely convertible currencies. Ocean shipping financed under the loan shall be procured in any country included in Code 941 of the A.I.D. Geographic Code Book, excluding the country of the relevant sub-borrower.

III. Local Currency Costs

United States dollars utilized under the loan to finance local currency costs shall be made available pursuant to procedures satisfactory to A.I.D.

IV. Conditions Precedent

- A. Prior to the first disbursement or to the issuance of the first letter of commitment documents 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:
1. a plan for the objective and comprehensive review of all investments and subloans proposed to be made by Borrower or any Caribbean subsidiary of Borrower to assure that such proposed activities are economically justified and technically sound;
  2. a plan for the evaluation of proposed sub-project activities by the Borrower or any Caribbean subsidiary of Borrower under the Program to assure that such proposed activities will produce economic benefits, benefits to rural poor in areas where the proposed activities will be located, and contribute to the development of agribusiness systems or enterprises.
  3. a statement by Borrower and any Caribbean subsidiary of Borrower setting forth the eligibility criteria and procedures each will follow in authorizing and administering investments and subloans;

- 3 -

4. a statement by Borrower and any Caribbean subsidiary or affiliate of Borrower setting forth the standards and procedures each will follow in providing technical assistance to clients;
5. certified copies of the corporate charters and by-laws of Borrower and of any Caribbean subsidiary of Borrower, duly authorized by the respective Boards of Directors of each, which corporate charters, unless A.I.D. otherwise agrees in writing, shall restrict the activities of Borrower and of any Caribbean subsidiary of Borrower to the following countries: Dominican Republic, Jamaica, Haiti, Panama, Belize, Guyana, Colombia and the island countries of the Lesser Antilles other than Barbados, Trinidad and Tobago and the Netherlands Antilles.
6. a certified copy of the resolution of the Borrower's Board of Directors authorizing and directing Borrower to contribute a minimum of \$2.0 million acquired from equity capital paid in to the Borrower, to the capital of the Caribbean subsidiary for the program;
7. an opinion or opinions of counsel, acceptable to A.I.D., that Borrower and any Caribbean subsidiary of Borrower, have taken all corporate and legal action required under the laws of the countries in which they propose to do business in order to fulfill their obligations under the loan and to implement the Program effectively;
8. certified copies of the operating policies of Borrower and of any Caribbean subsidiary of Borrower, which policies shall include but not necessarily be limited to:
  - (a) an administrative and technical staffing plan of any Caribbean subsidiary;
  - (b) policies controlling the divestment of equity investments to be made in enterprises financed with funds made available under the Program

**BEST AVAILABLE COPY**

9. a plan for the periodic audit of subloans made by Borrower and any subsidiary of Borrower;
- B. Prior to the Borrower's making commitments involving more than the equivalent of one million United States dollars (\$1,000,000) of loan funds, and thereafter when successive commitments totalling one million United States dollars (\$1,000,000) of loan funds have occurred, A.I.D., Borrower and its Caribbean subsidiary shall hold a joint review of the progress of the Program.

**VI Covenants**

- A. Except as A.I.D. otherwise agrees in writing, neither Borrower nor any subsidiary of Borrower shall:
  1. utilize A.I.D. loan funds or any repayments of principal from sub-loans made from A.I.D. loan funds to pay administrative or operating expenses of Borrower or of any subsidiary of Borrower;
  2. permit A.I.D. funds to be used to finance any subproject or to make subloans to any sub-borrower in excess of the equivalent of two hundred thousand United States dollars (\$200,000);
  3. make subloans with repayment terms of less than three (3) years;
  4. make or permit any Caribbean subsidiary of Borrower to make sub-loans or investments with A.I.D. loan funds, which sub-loans or investments at any time, exceed three (3) times the total of sub-loans or investments financed from capital paid in by Borrower to the Caribbean subsidiary;
  5. make sub-loans to or equity investments in business or other activities in which any shareholder, officer or employee of Borrower or of any subsidiary of Borrower has an equity interest or any interest through a licensing, royalty, or distributorship agreement;

- 5 -

6. make sub-loans from A.I.D. funds for working capital, except for financing costs of raw materials (inventory);
  7. maintain a reserve for bad debts of less than three percent (3%) of its total sub-loan portfolio;
  8. appoint as manager of Borrower's Caribbean subsidiary a person whose appointment has not been approved in advance by A.I.D. in writing;
  9. declare or pay dividends on shares of its common stock; or
  10. declare or pay dividends on either common or preferred shares from sources other than accrued earnings and after reserves for bad debts;
  11. incur any indebtedness for a term exceeding one (1) year without the prior approval of A.I.D.;
  12. incur any indebtedness which would enjoy a position superior to the obligation incurred under the A.I.D. loan;
  13. amend or modify its corporate charter, by-laws or operating plans or undergo any type of corporate reorganization.
- B. Repayments of principal from A.I.D. funded sub-loans may be used only for those purposes for which the A.I.D. loan funds were originally made available.

VI. Other Terms and Conditions

The loan shall be subject to such other terms and conditions as A.I.D. may deem advisable.

LA/DR:ELijewski:afh:5/29/75

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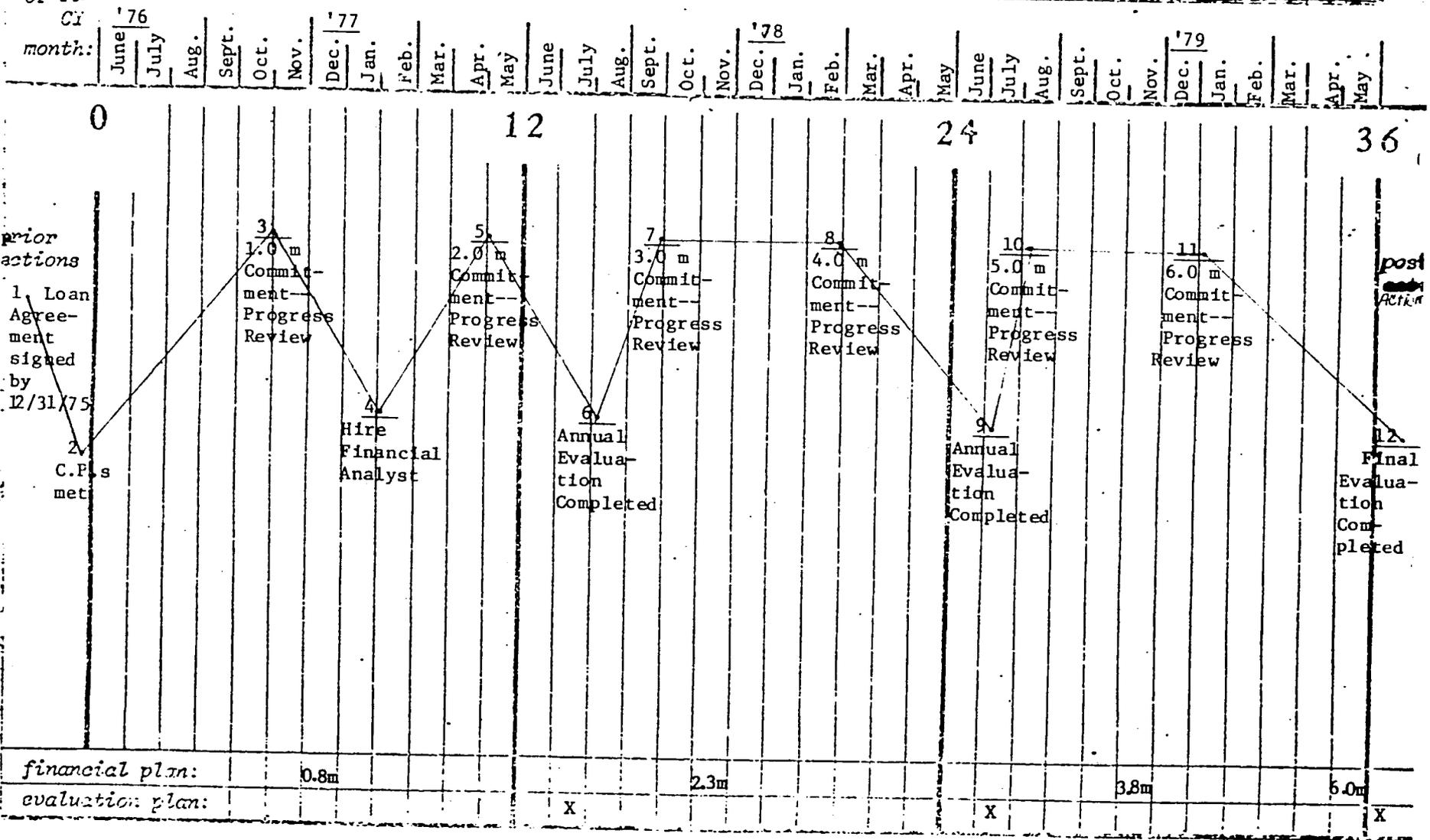
Deputy U.S. Coordinator

PROJECT PERFORMANCE NETWORK

ANNEX XIII

country:	project no:	project title:	date:	/ X / original	PPT appr
LA Regional	598-T-005	LAA/CARIBB	8/25/75	/ / revision#	

or FX  
CI



country: LA Regional	project no: 598-L-005	project title: LAAD/CARIBE	date: 8/25/75	/x / original / / revision #	apprvd:
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CPI NARRATIVE

1. 12/31/75 Loan Agreement Signed.
2. 6/30/76 Terminal Date for Satisfying CPs.
3. 10/31/76 LAAD Commitment of \$1.0 million of AID funds. Joint AID/Borrower progress review held prior to AID release of additional funds.
4. 1/31/77 LAAD/CARIBE has hired a financial analyst.
5. 4/30/77 LAAD commitment of additional \$1.0 million of AID funds. Joint AID/Borrower progress review held prior to AID release of additional funds.
6. 7/31/77 Annual Evaluation of Project Achievement against logical framework targets. (This exercise will also determine if specific target indicators expected for performance in the next period can be set.)
7. 9/30/77 Ditto No. 5 above.
8. 2/28/78 Ditto No. 5 above.
9. 6/30/78 Annual Evaluation, as per No.. 6 above.
10. 7/31/78 Ditto No. 5 above.
11. 12/31/78 Ditto No. 5 above.
12. 6/30/79 Final Evaluation.

DPAFT LOAN AGREEMENT PROJECT DESCRIPTION ANNEX

THE PROJECT

The Borrower is the Latin American Agribusiness Development Corporation, S. A. (LAAD). LAAD develops and finances small and medium sized Latin American agribusiness or agribusiness related ventures with high growth potential and with emphasis on development of the marketing capabilities of the companies it supports.

The resources to be made available under this project will allow LAAD, an entrepreneurial investment corporation, to create a Caribbean subsidiary to promote, finance and implement agribusiness enterprises in the Caribbean and the Latin American North Coast areas. These businesses are expected to produce significant economic impacts (increases in value-added and foreign exchange earnings), benefit a target group of small farmers and other rural poor (through purchases of small farmer production and other employment generation effects), and contribute to the development of increasingly efficient agribusiness operations (through emphasizing the elimination of bottlenecks in the integrated farm to market system). The proposed undertaking in the Caribbean and the Latin American North Coast area and LAAD's Central American program will be mutually reinforcing, serving over time to promote intra and inter-regional trade and exchanges of experience. The proposed expansion of LAAD's activities will also allow LAAD to extend more effectively those services it now provides to its clients in the fields of marketing, technology, and finance.

The goals of this project are to benefit the poor in areas where LAAD operates and to contribute substantially to the promotion, development, and expansion of agri-business systems and enterprises in Caribbean and the Latin American North Coast area. Achievement of the project goal will be possible through an approach of identifying and addressing deficiencies and constraints in agricultural production, processing, distribution, and marketing systems and applying selectively capital, management, training, technical and financial assistance to improve the functioning of elements of those systems. The primarily non-traditional agribusiness enterprises to be promoted under this project will result in the creation of substantial new rural and non-rural employment opportunities and other benefits.

A major conceptual premise of the LAAD approach to agribusiness development is that it should cover a representative area of Latin America in order to marshal the financial and technical resources necessary to allow LAAD to reach its potential as a specialized development finance company engaged in high risk, non-traditional agribusiness ventures. Therefore, a major LAAD objective, and a goal of the proposed project, is the replication of its successful Central American experience in other Caribbean and Latin American countries.

The purpose of this project is: a) to support the expansion of LAAD's agribusiness development activities into the Caribbean and the Latin American North Coast area and b) thereby to contribute to the development of LAAD as an agribusiness development organization with a base and focus of operations sufficient in size and scope to facilitate operating economies of scale and to attract expanding shareholder and affiliate participation in LAAD programs.

It is estimated that some 40 sub-projects largely comprising food production, processing, packaging, and storage operations, will be financed during the three year AID loan disbursement period and that this number will increase to 120 sub-projects over the life of the project. Similarly, it is estimated that the project would directly create some 5,800 jobs during the first round and a total of 17,000 jobs by the end of the project's life.

The priority beneficiaries of the proposed project will be the rural poor in areas where LAAD sub-projects will operate. This target group will be composed largely of rural landholding small farmers and landless workers. LAAD Caribe's approach to reaching the target group is to strengthen the market outlets for the products of small farmers and through the establishment of such facilities as fruit and vegetable processing plants offer them feasible opportunities to move from traditional to higher value crops. LAAD Caribe will also develop labor intensive agroindustries utilizing rural workers (such as seeds and floral products and such highly technical crops as mushrooms). It is not expected that LAAD Caribe with its small staff will work directly with small farmers. Rather LAAD Caribe will complement AID and other international lending institutions loans involving rural infrastructure and direct small farmer credits.

Direct LAAD commitments in the Caribbean and Latin American North Coast areas are estimated to be no less than \$8.0 million over the next three years. \$6.0 million of this amount would come from the AID loan and \$2.0 million from LAAD's capital. Other resources will be sought (EximBank, OPIC, commercial banks) in direct support of specific sub-projects as appropriate.

Conservatively estimated, the proposed program will provide a total additional investment of approximately \$35.2 million over the three year draw down period of the AID loan as shown below:

<u>Source</u>	<u>Amount</u>	<u>Purpose</u>
AID	\$6.0 million	Loans and equity. Foreign exchange costs (Area Code 941) of goods and services; local procurement and construction costs.

<u>Source</u>	<u>Amount</u>	<u>Purpose</u>
LAAD	\$2.0 million	Primarily equity investments
Private Investors	\$11.2 million	Land acquisition and working capital.
Other loans to sub- projects	\$16.0 million	Long term borrowings from other development banks and commercial bank financing of working capital needs covering pro- duction, inventory, and export shipments.