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RE 247

6p.

ACTION MEMORANDUM FOR THE ASSISTANT ADMINISTRATOR (LAC)

FROM: LAC/DR, Marshall D. Brown

Problem: Authorization of the \$4.0 million SOLIDARIOS Development Fund Grant

Discussion: The goal of the project is to improve the standard of living of low income groups in Latin America, particularly in the rural areas, by increasing their access to capital resources through private, non-government institutions. The project is designed to help the Council of American Development Foundations (SOLIDARIOS) provide increased financial, managerial and technical assistance to its member foundations for the development and implementation of subprojects benefitting low income groups. Subprojects will include credit programs for small farmers, artisans and small businesses, programs which support marketing and consumer activities, and possible social projects such as community centers and low cost housing.

The project calls specifically for: (1) the creation of a \$3.55 million revolving credit fund to be administered by SOLIDARIOS, from which its members can draw in order to implement development projects for the benefit of low income groups in their respective countries; (2) establishment of a self-supporting training and technical assistance program for those member foundations which need to strengthen their planning, administrative, or technical capacities to develop and implement local projects; and (3) the addition of two staff members -- both regional loan analysts -- to strengthen SOLIDARIOS' capability to analyze the financial, social and economic feasibility of loan applications from member foundations.

The grant will total \$4.0 million over three years, broken down as follows: \$3.55 million as seed capital for the SOLIDARIOS revolving loan fund; \$250,000 for technical assistance provided by SOLIDARIOS to member development foundations; and \$200,000 to finance two new SOLIDARIOS regional loan analysts for a period of three years. Because the project is a regional project, the minimum counterpart requirement under Section 110(a) of the FAA is not applicable.

The Bureau's Environmental Committee has reviewed the Initial Environmental Examination prepared in conjunction with the PP and has concurred in the recommendation for a Negative Determination.

The project was not included in the FY 1978 Congressional Presentation, although it is included in the FY 1979 CP. An Advice of Program Change was prepared and forwarded to Congress on June 14, 1978. Fifteen days have passed since that time and the project can now be authorized.

The DAEC reviewed and approved the project on July 6, 1978, with the following modifications to the Project Paper: (1) that the criteria to be used by SOLIDARIOS for selecting and approving loans to NDFs (national development foundations) be set out in more detail in one section of the PP; (2) that the section describing the selection criteria make reference to the condition precedent which requires that NDFs make certain improvements called for by the management survey report; (3) that the target group to be reached by the project be described more fully; (4) that a more complete summary of the terms of SOLIDARIOS loans to NDFs be added to the PP; (5) that the PP describe more fully the financial contribution NDFs are expected to make toward SOLIDARIOS funded sub-projects; (6) that Annex 4 be revised to include information on assistance not to educational institutions; and (7) that the log frame indicator of project purpose be revised to indicate an increase in SOLIDARIOS' capability to sustain a revolving lending program.

Recommendation: That you sign the attached Project Authorization and Request for Allotment of Funds (PAF), thereby authorizing AID/W to negotiate and sign a Project Agreement for the SOLIDARIOS Development Fund project.

Attachments: TAB A - PAF
TAB B - Project Paper

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

ASSISTANT
ADMINISTRATOR

PROJECT AUTHORIZATION AND REQUEST FOR ALLOTMENT OF FUNDS

Name of Entity:	SOLIDARIOS
Name of Project:	SOLIDARIOS Development Fund
Number of Project:	598-0587

Pursuant to Part I, Chapter 1, Section 106 of the Foreign Assistance Act of 1961, as amended, I hereby authorize a Grant to SOLIDARIOS, a private, non-profit consortium, incorporated in the Dominican Republic ("SOLIDARIOS"), of not to exceed One Million Five Hundred Thousand United States Dollars (\$1,500,000), to help in financing certain foreign exchange and local currency costs of goods and services required for the project as described in the following paragraph. The project consists of the establishment of a credit fund to support national development foundations ("NDFs") which are members of SOLIDARIOS and to provide technical support to these NDFs for the development and implementation of projects for low income groups (the "Project").

I approve the total level of A.I.D.-appropriated funding planned for this Project of not to exceed Four Million United States Dollars (\$4,000,000), all of which will be Grant funded, including the funding authorized above, during the period FY 1978 through FY 1980. I approve further increments during that period of Grant funding up to \$2,500,000, subject to the availability of funds in accordance with A.I.D. allotment procedures.

I hereby authorize the initiation of negotiation and execution of the Project Agreement by the officer to whom such authority has been delegated in accordance with A.I.D. regulations and Delegations of Authority, subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate:

A. Source and Origin of Goods and Services

Except for ocean shipping, goods and services financed by A.I.D. under the Project shall have their source and origin as permitted by Chapter 16B1c(4)(a) of Supplement B to A.I.D. Handbook 1, except as A.I.D. may otherwise agree in writing. Ocean shipping financed under the Grant shall be procured in the United States.

B. Conditions Precedent to Initial Disbursement

Prior to any disbursement, or the issuance of any commitment documents under the Project Agreement, SOLIDARIOS shall furnish in form and substance satisfactory to A.I.D.:

1. a certified copy of the corporate charter and by-laws of SOLIDARIOS, duly authorized by the SOLIDARIOS Executive Board.
2. a certified copy of the operating policies, procedures, and standards of SOLIDARIOS, which shall include:
 - a. SOLIDARIOS' Credit policy, including:
 - (i) the procedures to be followed for the objective and comprehensive review and authorization of all activities to be financed by SOLIDARIOS from the proceeds of the Grant, to assure that such proposed activities are economically justified, technically sound, and will have the desired impact on the agreed upon target group of beneficiaries
 - (ii) a plan for periodic audit of sub-loans made by SOLIDARIOS
 - (iii) the standards and procedures to be followed in providing technical assistance to member NDFs.
 - b. The first quarterly implementation plan for the Development Fund of SOLIDARIOS.
 - c. The plan of SOLIDARIOS for recruiting and assigning two new analysts, including job descriptions.

- d. A statement that, unless otherwise agreed by A.I.D., all loans made by SOLIDARIOS with A.I.D. funds shall be subloaned by NDFs directly to the target groups.

C. Other Conditions

Prior to any disbursement, or the issuance of any commitment documents under the Project Agreement, to finance individual credit programs, other than the Fundacion del Centavo of Guatemala, Funde of Nicaragua, FDD of the Dominican Republic, and FMDR of Mexico:

1. The SOLIDARIOS management survey team shall have completed an evaluation, together with recommendations for improving performance of the NDF requesting loan support from SOLIDARIOS, and shall have submitted a report of their findings to such NDF and to SOLIDARIOS;

2. The NDF shall have taken positive action on the recommendations set forth in the SOLIDARIOS survey team's report;

3. The NDF and SOLIDARIOS shall furnish evidence satisfactory to A.I.D. of the institutional capacity of such NDF to absorb the additional level of funding requested and to manage effectively an expanded program.

D. Covenants

Except as A.I.D. shall otherwise agree in writing, SOLIDARIOS shall covenant that:

1. It will charge a 5% interest rate to the NDFs for loans made from the proceeds of the Grant.

2. No more than \$550,000 of the Grant will be distributed to any one NDF.

3. It will submit a quarterly progress report, beginning the second quarter of the Project period, detailing progress in implementing the preceding quarter's plan of operations and providing the following information for each of the subloans approved: NDF recipient, copy of request with details of target group, expected impact and loan terms, and copy of SOLIDARIOS staff findings and recommendations to Executive Committee.

Edward W. Coe

Assistant Administrator
Bureau for Latin America and
the Caribbean

July 25 1978
Date

Clearances:

LAC/DR, AMerrill AKM Date 7/14
LAC/DR, TBrown AKM Date 7/14

LAC/DR, MBrown _____ Date _____
LAC/DP, JHanks AKM Date 7/14
GC/LAC, JKessler AKM Date 7/14

GC/LAC, GMW AKM hac: 7/14/78:
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