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UNCLASSIFIED

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D. C. 20523

CARIBBEAN REGIONAL

PROJECT PAPER

AGRIBUSINESS EXPANSION

AID/LAC/P-057

Project Number: 538-0057
Loan Number: 538-T-014

UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT PROJECT DATA SHEET	1. TRANSACTION CODE <input type="checkbox"/> A = Add <input type="checkbox"/> C = Change <input type="checkbox"/> D = Delete	Amendment Number _____	DOCUMENT CODE 3
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2. COUNTRY/ENTITY CARIBBEAN REGIONAL	3. PROJECT NUMBER 538-0057
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4. BUREAU/OFFICE LAC/DR	5. PROJECT TITLE (maximum 40 characters) AGRIBUSINESS EXPANSION
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6. PROJECT ASSISTANCE COMPLETION DATE (PACD) MM DD YY 09 30 84	7. ESTIMATED DATE OF OBLIGATION (Under 'B:' below, enter 1, 2, 3, or 4) A. Initial FY <u>80</u> B. Quarter <u>4</u> C. Final FY <u>80</u>
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8. COSTS (\$000 OR EQUIVALENT \$1 =)						
A. FUNDING SOURCE	FIRST FY <u>80</u>			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant)	()	()	()	()	()	()
(Loan)	(6,000)	()	(6,000)	(6,000)	()	(6,000)
Other U.S.						9,300
1.						
2.						
Host Country						
Other Donor(s)						
TOTALS	6,000		6,000	6,000		15,300

9. SCHEDULE OF AID FUNDING (\$000)									
A. APPRO- PRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) FN	113		150				6,000		6,000
(2)									
(3)									
(4)									
TOTALS							6,000		6,000

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each) BR BL BF INT	11. SECONDARY PURPOSE CODE
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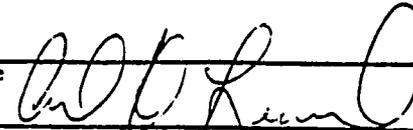
12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each) A. Code _____ B. Amount _____

13. PROJECT PURPOSE (maximum 480 characters)

To initiate and expand private agribusiness investments in the Caribbean

14. SCHEDULED EVALUATIONS Interim MM YY MM YY Final MM YY	15. SOURCE/ORIGIN OF GOODS AND SERVICES <input type="checkbox"/> 000 <input checked="" type="checkbox"/> 941 <input checked="" type="checkbox"/> Local <input type="checkbox"/> Other (Specify) _____
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16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment.)

17. APPROVED BY	Signature  Title Assistant Director for Development Finance	Date Signed MM DD YY 08 08 80	18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION MM DD YY 08 11 80
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INSTRUCTIONS

The approved Project Data Sheet summarizes basic data on the project and must provide reliable data for entry into the Country Program Data Bank (CPDB). As a general rule blocks 1 thru 16 are to be completed by the originating office or bureau. It is the responsibility of the reviewing bureau to assume that whenever the original Project Data Sheet is revised, the Project Data Sheet conforms to the revision.

Block 1 - Enter the appropriate letter code in the box, if a change, indicate the Amendment Number.

Block 2 - Enter the name of the Country, Regional or other Entity.

Block 3 - Enter the Project Number assigned by the field mission or an AID/W bureau.

Block 4 - Enter the sponsoring Bureau/Office Symbol and Code. (See Handbook 3, Appendix 5A, Table 1, Page 1 for guidance.)

Block 5 - Enter the Project Title (stay within brackets; limit to 40 characters).

Block 6 - Enter the Estimated Project Assistance Completion Date. (See AIDTO Circular A-24 dated 1/26/78, paragraph C, Page 2.)

Block 7A. - Enter the FY for the first obligation of AID funds for the project.

Block 7B. - Enter the quarter of FY for the first AID funds obligation.

Block 7C. - Enter the FY for the last AID funds obligations.

Block 8 - Enter the amounts from the 'Summary Cost Estimates' and 'Financial Table' of the Project Data Sheet.

NOTE: The L/C column must show the estimated U.S. dollars to be used for the financing of local costs by AID on the lines corresponding to AID.

Block 9 - Enter the amounts and details from the Project Data Sheet section reflecting the estimated rate of use of AID funds.

Block 9A. - Use the Alpha Code. (See Handbook 3, Appendix 5A, Table 2, Page 2 for guidance.)

Blocks 9B., C1. & C2. - See Handbook 3, Appendix 5B for guidance. The total of columns 1 and 2 of F must equal the AID appropriated funds total of 8G.

Blocks 10 and 11 See Handbook 3, Appendix 5B for guidance.

Block 12 - Enter the codes and amounts attributable to each concern for Life of Project. (See Handbook 3, Appendix 5B, Attachment C for coding.)

Block 13 - Enter the Project Purpose as it appears in the approved PID Facesheet, or as modified during the project development and reflected in the Project Data Sheet.

Block 14 - Enter the evaluation(s) scheduled in this section.

Block 15 - Enter the information related to the procurement taken from the appropriate section of the Project Data Sheet.

Block 16 - This block is to be used with requests for the amendment of a project.

Block 17 - This block is to be signed and dated by the Authorizing Official of the originating office. The Project Data Sheet will not be reviewed if this Data Sheet is not signed and dated. Do not initial.

Block 18 - This date is to be provided by the office or bureau responsible for the processing of the document covered by this Data Sheet.

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D C 20523

ASSISTANT
ADMINISTRATOR

AID/LAC/P-057

PROJECT AUTHORIZATION

Name of Entity: Latin American Agribusiness
Development Corporation, S.A.

Name of Project: Agribusiness Expansion

Number of Project: 538-0057

Number of Loan: 538-T-014

1. Pursuant to Section 103 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Agribusiness Expansion project with the Latin American Agribusiness Development Corporation, S.A. ("LAAD"), involving planned obligations of not to exceed Six Million United States Dollars (\$6,000,000) in loan funds ("Loan") over a four-year period from the date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the project.

2. The project consists of the initiation and expansion of private agribusiness investments in the Caribbean (the "Project").

3. The Project Agreement, which may be negotiated and executed by the officer to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority, shall be 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.

4. (a) Interest Rate and Terms of Repayment

LAAD shall repay the Loan to A.I.D. in U.S. Dollars within twenty (20) years from the date of first disbursement of the Loan, including a grace period of not to exceed five (5) years. LAAD shall pay to A.I.D. in U.S. Dollars interest from the date of first disbursement of the Loan at the rate of four percent (4%) per annum on the outstanding disbursed balance of the Loan and on any due and unpaid interest accrued thereon.

(b) Source and Origin of Goods and Services

Goods and services, except for ocean shipping, financed by A.I.D. under the Project shall have their source and origin in countries included in A.I.D. Geographic Code 941, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Project shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States or of the country in which the particular subproject is located.

(c) Conditions Precedent to Disbursement

1. Prior to any disbursement, or the issuance by A.I.D. of any commitment documents under the Project Agreement, LAAD 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.:

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

(b) A plan for the evaluation of proposed subproject activities by LAAD or any Caribbean subsidiary of LAAD under the Project to assure that such proposed activities will produce economic 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 LAAD and any Caribbean subsidiary of LAAD setting forth the eligibility criteria and procedures each will follow in authorizing and administering investments and subloans;

(d) A statement by LAAD and any Caribbean subsidiary of LAAD setting forth the standards and procedures each will follow in providing technical assistance to clients;

(e) Evidence that LAAD has established and staffed an office in Bridgetown, Barbados to support its Caribbean subsidiary; and

(f) A plan for the periodic audit of subloans made by LAAD and by any subsidiary of LAAD.

2. Prior to any disbursement, or to the issuance by A.I.D. of any commitment documents under the Project Agreement, in excess of \$2,000,000, LAAD will, except as A.I.D. may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., evidence that LAAD and/or any Caribbean subsidiary of LAAD has incurred indebtedness from private banking sources in an aggregate amount of not less than \$4,000,000.

3. Prior to any disbursement, or to the issuance by A.I.D. of any commitment documents under the Project Agreement, in excess of \$4,000,000, LAAD will, except as A.I.D. may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., evidence that LAAD and/or any Caribbean subsidiary of LAAD has incurred indebtedness from private banking sources in an aggregate amount of not

(d) Covenants

LAAD shall covenant that, unless A.I.D. otherwise agrees in writing, it will utilize no less than \$4.0 million under the Loan for eligible projects in Antigua, Belize, British Virgin Islands, Cayman Islands, Dominica, Montserrat, St. Kitts-Nevis-Anguilla, St. Lucia, St. Vincent, Turks and Caicos Islands, Barbados and Trinidad and Tobago or for projects impacting on such countries.

Edward W. Conroy
Acting Assistant Administrator
Bureau for Latin America
and the Caribbean

August 29, 1980
Date

Clearances:

GC/LAC:JLKessler:

JLK date 8/21/80

LAC/CAR:RArchib:

RA date 7/21

LAC/DR:LArmstrong:

to LAS date 8/24/80

LAC/DR:MDBrown:

MB date 8/28/80

GC/LAC:GMWinter: GMW 8/22/80

AGRIBUSINESS EXPANSION PROJECT PAPER

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 - 1. Project Assessment Form
 - 2. Initial Questionnaire

I. SUMMARY AND RECOMMENDATIONS

A. RECOMMENDATIONS

The Project Committee recommends the Agribusiness Expansion Project for AID approval.

Loan	\$6,000,000
(Loan terms: 20 years, 5 year grace period with interest at 4 percent	

Total New AID Obligation	\$6,000,000
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B. PROJECT DESCRIPTION

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 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 with subsidiary operations in Central America (LAAD-CA) and the Caribbean (LAAD-Caribe). LAAD develops and finances small and medium sized agribusiness or agribusiness related ventures with growth potential and with emphasis on development of the marketing capabilities of the companies it supports.

The goal of this project is to improve the standard of living of the Caribbean poor. The project's sub-goal is to stimulate economic and agricultural growth and create employment. The purpose is to initiate and expand private agribusiness investments in the Caribbean.

An important objective of this project is an organization which is stronger financially and institutionally. This will be accomplished by attracting private capital to LAAD in an amount equaling the AID loan. That is, \$6 million in AID resources will be available to LAAD on the basis that these resources are matched by \$6 million in borrowings from private sources. Of the \$6 million in private borrowings, LAAD will utilize \$2.0 million in the Caribbean and the remaining \$4.0 million in South and Central America. ^{1/} The project will, thus, represent a step in co-financing AID-supported projects by leveraging private resources and will be achieved without any AID guarantees to the private sources. Coupled with LAAD's own resources (an estimated \$7.3 million), the AID and private bank borrowings (\$8 million) will provide LAAD with a total of \$15.3 million available for sub-projects in the Caribbean. Of this total, \$4 million will be specifically targeted for sub-projects in the English-speaking LDCs.

^{1/} As this AID loan is earmarked for Caribbean-based projects, further reference to private borrowings will be in the context of the \$2.0 million portion to be channelled into the Caribbean.

It is estimated that about 44 sub-projects, in the areas of food production, agricultural inputs (especially, seed enterprises) processing, packaging, storage and transportation will be financed in the Caribbean during the four year AID loan. LAAD's average investment in each sub-project is estimated at \$350,000. Further, the project will create about 10,000 new jobs during the first round of loan utilization.

The principal beneficiaries of the proposed project will be the small farmers and landless workers in the Caribbean. LAAD's approach to reaching this target group is to strengthen the market outlets for the products of small farmers through the establishment of such facilities as fruit and vegetable processing plants. Such sub-projects often encourage the farmer to shift from traditional to higher value crops.

In addition to the co-financing feature of the project, other major aspects include: additional staff and establishment of a new LAAD office in the Eastern Caribbean to facilitate project identification and development; an expanded role for LAAD in terms of providing more comprehensive financing packages such as export related services; and extended marketing services, for example, through linkage with U.S. or regional purchasers.

C. FINANCIAL PLAN

Conservatively estimated the project will provide about \$15.3 million over the four year period as shown below:

<u>Source</u>	<u>Amount</u>
AID	\$ 6.0 million
Private Banks (to Caribbean)	\$ 2.0 million
LAAD	\$ 7.3 million
TOTAL	\$15.3 million

D. SUMMARY FINDINGS

The Project Committee has determined that the proposed project is technically, financially and administratively feasible for completion within a four year period. On the sub-project level, LAAD will analyze all proposals according to established procedures prior to approval of sub-loans. AID will review all sub-loans prior to disbursement. The project meets all other statutory criteria. (See Annex B, Statutory Checklist.)

E. ISSUES

The proposed project presents no unresolved issues. A limited number of issues were identified in the DAEC review of the PID. These have been analyzed by the Project Committee during the intensive review and are summarized below:

1. Sub-project Demand for Credit

The demand analysis is presented in Section III, B, 1, and demonstrates projected demand totaling \$16.5 million for sub-project financing in the Caribbean. In the English speaking LDCs alone, sub-project demand is \$8 million. Invariably, as the project progresses, some of the sub-projects identified at this time may not prove feasible or, in fact, they may be financed by other organizations. Further, Caribbean sponsors will no doubt present new sub-projects to LAAD for consideration.

With regard to the question of this project possibly competing for sub-project financing with other AID-CDB projects, AID loan 538-T-006 has largely been committed. Loan 538-T-007 is fully programmed and investment proposals are in the process of being analyzed. There is likely to be some fallout among these programmed proposals and thus some competition between LAAD & CDB, however, the competition is not expected to be severe as LAAD will serve some clients who prefer not to utilize the CDB. Also, it is expected that some competition will be healthy for CDB in that CDB may be forced to accelerate its loan approval process.

2. Loan Allocation to LDCs

Two-thirds of the AID loan, or \$4 million has been earmarked for sub-projects in the English-speaking LDCs. This represents a significant allocation of resources and will require a substantial effort on the part of LAAD to fully commit and disburse these monies within a four year period. At this time it is not expected that any of the funds LAAD raises through private source borrowings will be placed in the E.C. This is because these funds will be borrowed by LAAD at floating interest rates (these are rates which will fluctuate 1-2% above the prime rate and will change everytime prime changes.) and yet in the English-speaking Caribbean it is not common business practice to lend money at floating rates. Thus, the project committee believes the \$4 million allocation from AID funds is reasonable.

3. Financial Strategy

Questions relating to LAAD's financial health, sub-project conditions in El Salvador and Nicaragua, leverage beyond the proposed one-to-one matching of AID with private bank funds and additional equity are discussed in Section III, B, 2 - Financial Analysis.

4. Sub-Project Lending Criteria

The criteria proposed are substantially similar to those utilized under the previous LAAD-Caribe loan. Additional emphasis, however, will be placed on those sub-projects which promote trade or contribute to exports for the LDCs. The criteria are set forth in Section II, B, 3 - Project Description.

5. Follow-on Sub-Project Lending

AID funds will be limited to utilization for sub-projects not previously financed by LAAD or for sub-projects in which LAAD has been involved but where substantial expansion of employment could be expected. LAAD will utilize its own funds to provide follow-on loans, if needed, by sub-project borrowers.

6. LAAD Operations in the Mini-States

No difficulties are anticipated in expanding LAAD operations into the mini-states. A covenant will require LAAD to obtain a legal opinion that it has complied with all appropriate corporate and legal actions required under the laws of countries in which it proposes to do business.

7. Marketing Subsidiary

LAAD will not reactivate its marketing subsidiary, at least not at the outset of this Program. Rather groups such as the World Trade Institute will be contracted. See discussion under II. B, 4,b,(6) - Project Description, Marketing Activities.

F. PROJECT COMMITTEE

J. Peter Bittner	-	LAC/DR (Chairman)
Robert Burke	-	LAC/DR, Economist
Norman Chapin	-	LAC/DR, Sociologist
Mark Waldman	-	LAC/DR, Capital Development Officer
Gary Winter	-	GC/LAC, Legal Advisor

Reviewed and Approved by

Carl Leonard	-	Assistant Director for Finance, LAC/DR
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BACKGROUND AND DETAILED DESCRIPTION

A. BACKGROUND

1. The Borrower:

The Latin American Agribusiness Development Corporation, S.A. (LAAD) was incorporated in Panama as a private corporation on January 26, 1970. Its shareholders (12 originally, 17 at present) include 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 subsidiary offices in Guatemala City and Santo Domingo.

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 agribusiness or agribusiness-related enterprises. LAAD will consider any form of financial participation in eligible 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 itself of its equity holdings over time, preferably within the local capital market. LAAD will occasionally 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 role it can play in assisting a project to become successful.

As an investor or lender, LAAD seeks out agribusiness opportunities with long-term growth potential. LAAD requires any project it finances to 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 the risks involved.

When evaluating proposals for financing, LAAD's primary concerns are the capability of the project's management, the product's market growth potential, the competitiveness of the product, its total importance to the local economy, and its impact on employment both directly and indirectly. Special priority is given to investment opportunities involving the export of non-traditional agricultural-based products to regional and international markets.

LAAD also provides technical and managerial services in addition to financing. The most important of these is assistance in developing and financing a business venture. LAAD's management has years of experience in investment banking in Latin America and has extensive technical and marketing ability.

As of October 31, 1979 (LAAD's fiscal year end) the corporation had nearly \$30 million in assets, chiefly in the form of sub-loan investments in agribusiness operations in Central America and the Caribbean. LAAD's stockholders equity consisted of \$2,170,000 in five percent preferred stock and \$3,200,000 in common stock; retained earnings totaled \$1.9 million. All voting rights in the corporation are vested exclusively in the holders of common stock, with one vote for each share held. There are seventeen 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 in excess of \$200,000. For financing requirements below that level the President of LAAD has discretionary approval authority to commit the resources of the corporation for eligible projects.

LAAD consists of Latin American Agribusiness Development, S.A., the parent corporation, and three subsidiaries. These are LAAD de Centro-america, S.A. (LAAD-CA), located in Guatemala City; LAAD-Caribe, S.A. (LAAD-C), in Santo Domingo which will soon open an office in Bridgetown, Barbados; and LAAD-M, an inactive marketing subsidiary operating out of the parent office in Miami. All the subsidiaries, like the parent company, were organized in the Republic of Panama. There is a degree of functional overlap in the three organizations and the delegation of responsibilities and duties stems mainly from geographic differences; LAAD is close to its shareholders, U.S. markets, and sources of technical expertise and the subsidiaries are close to the sub-projects that are LAAD's portfolio. The exception to this is LAAD-M, the subsidiary formed within LAAD to assist sub-borrowing in developing their marketing capabilities. However, due to operational difficulties several years ago, LAAD-M has largely been inoperative.

Personnel of the head office include LAAD's president, a vice president for finance, a comptroller, an accountant and a secretary. The Guatemala personnel include a vice president (and president of LAAD-CA), two financial analysts (one in Nicaragua), a comptroller and a secretary. In the Dominican Republic there is a president/investment analyst. See Annex H, Exhibit 1 for Organization Chart.

2. Previous AID Loans to LAAD:

AID has made three previous loans to LAAD. The first of these signed in 1971 for \$6.0 million was utilized for agribusiness project development in the five Central American countries (596-L-011). Prior to that time LAAD, using its original equity capital and borrowed funds, had engaged in short-term commercial financing. Part of the purpose of the loan was to establish LAAD as a commercially viable and independent development finance enterprise and also to make a significant impact on development of capital markets in Central America.

As required under the approved AID-LAAD project, LAAD established a subsidiary (LAAD-CA) to conduct its agribusiness development activities in Central America and eventually to market its own shares to interested Central American investors. By January 1975 the \$6.0 million AID loan, matched by \$2.0 million in LAAD equity, was fully disbursed. The \$8.0 million provided financing to fifty-two sub-projects through term loans, convertible debentures, or equity investments.

During 1974 AID and LAAD entered into discussions to consider extending LAAD's activities into the Caribbean, while maintaining its lending in Central America. These discussions culminated in two loans, one for \$5.0 million to be used to consolidate LAAD-CA and its operations in Central America. That loan was authorized in June 1975 (596-T-015) and focused largely on LAAD's development financing activities and less on the development of Central American capital markets. In December 1975 AID authorized a third loan to LAAD, which resulted in the establishment of LAADCaribe to carry out sub-project development in the Caribbean region. AID provided \$6.0 million which was matched by \$2.0 million of LAAD funds. These monies were to serve as the basis for further loans by development banks and commercial institutions. By June 1979 the third loan was fully disbursed, enabling LAAD to fund thirty-one sub-projects in the Caribbean.

3. Analysis of Performance:

The overall thrust of the AID loans to LAAD has been to assist LAAD to become a viable and independent institution providing medium-term financing and technical assistance to agribusiness enterprises in Central America and the Caribbean, thus creating direct and indirect benefits to the poor. An original objective was also to develop the basics of a capital market in these areas, this was eventually to prove unworkable.

Achievement of project objectives was to be made by identifying deficiencies and constraints in agricultural production, distribution and marketing systems and selectively applying capital, management, training, technical and financial assistance to improve the functioning of elements in these systems. The primarily non-traditional agribusiness enterprise to be promoted would then result in the creation of significant new rural and non-rural employment opportunities as well as other direct and indirect benefits.

The CAP for the second AID loan to LAAD contains an evaluation of the first loan. The general 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." The CAP states that LAAD was moving towards eventually self-sustaining operations, that LAAD had successfully promoted, developed, and implemented nontraditional agribusiness sub-projects in a systematic manner, and that LAAD had provided adequate technical assistance to the sub-projects with which it had been involved.

An independent evaluation of the first loan was completed in November 1977. Generally, this evaluation supported the conclusions of the CAP,

stating that, through strategic investments, primarily in processing enterprises, LAAD had increased purchases of traditional and nontraditional agricultural products from small farmers, thus, increasing employment and income among both landed and landless groups. Additionally, the sub-projects resulted in significant export earnings as well as providing direct employment and income gains. With regard to LAAD operations, the evaluation team noted the continuing problem of long-term LAAD viability as an independent institution, and also the relative lack of equity investments in LAAD's portfolio. The team noted significant improvements in LAAD's management of sub-projects as well as supporting the basic AID/LAAD concept of investment primarily in processing facilities to direct benefits towards the rural poor.

Alimentos Congelados (ALCOSA), a Guatemalan frozen vegetable firm, was the subject of a socio-economic analysis as a part of this evaluation. LAAD loaned ALCOSA \$258,000 to help it expand its operations.

ALCOSA buys okra and cauliflower from local farmers and grows broccoli on its own land. In 1976 it employed the rural full time equivalent of 355 workers; this was expected to increase to 475 by 1980. ALCOSA provides local farmers with guaranteed prices and unlimited demand for their crops. The evaluation team focussed on cauliflower; they found local farmers responding to the provision of market incentives in every way they could, including investing in more fertilizers and insecticides, buying pack horses, renting more land, and in some cases hiring outside laborers.

ALCOSA provides technical assistance through the buyers who travel from village to village. These buyers are not professional agronomists but have extensive knowledge of local conditions and the crops under cultivation. Additionally, their often close relationships with the farmers help gain acceptance for improved methods. The resulting cauliflower crop is of high enough quality to be exported to the U.S.

In 1976 the LAAD portion of ALCOSA's wage and raw materials payments was \$112,500 and \$93,748, respectively. Exports were 95% of total sales of \$906,804; the total foreign exchange impact of ALCOSA's operations was calculated to be \$1,104,810. In both economic and social terms, the evaluation concluded, ALCOSA's impact on the target group was positive.

In 1979 AID carried out a field review of the third loan to LAAD. The review, which was based on a study of a few selected sub-projects, concluded that LAAD was applying AID's criteria for sub-project financing. The sub-project appraisals and target impact assessments were deemed excellent, and the review noted that LAAD was fulfilling all reporting requirements and was responsive to AID concerns. Those carrying out the review felt that it had "illustrated the soundness of the loan program."

To illustrate the types of facilities financed by LAAD, one of the sub-projects included in the field review was Fabrique de Conservas de Legumes ET DE Fruits, S.A. (FACOLFF), a vegetable and fruit processing plant in rural South Haiti. It was organized in July of 1973 with authorized capital of

\$500,000, which was later increased to \$993,000. LAAD, using AID funds, has made a \$500,000 loan to FACOLEFF. The facility is involved in canning tomatoes, pidgeon peas, and fruit juices. In February of 1979 the plant employed fifty-four people and projections were for two hundred people when full capacity was reached.

A more important aspect of FACOLEFF's operations, however, was its role as a purchaser of small farm output. The plant is expected to use the output of more than three hundred small farmers, many of whom have never before been included in the cash economy. For the most part these farmers were working land divided up into parcels of one half to one and one half hectares.

FACOLEFF provides needed inputs by supplying seeds, fungicides, insecticides and fertilizer to the farmers. The company has hired a chief agronomist and four agro-technicians who provide technical assistance to the farmers in ground preparation, use of agro-chemicals and fertilizers, irrigation methods and harvesting. FACOLEFF provides a guaranteed market for the fresh produce at a pre-agreed price. The company is also involved in completing the irrigation system in the area.

The field review concluded that the plant was labor intensive, designed to meet AID's target group, and that it fits the intent of the program

4. Project Rationale:

The entire Caribbean Basin, including the mini-states of the Eastern Caribbean and the larger countries of Jamaica, Haiti, the Dominican Republic, Guyana and Belize, suffers from a combination of short and long run problems. The economic and geographic fragmentation of the area, coupled with a lack of natural resources, has created a deteriorating situation in some countries and placed severe barriers to further growth in others. Unemployment is becoming increasingly severe in the entire Caribbean especially among the politically volatile 15-24 age group, which comprises a very large portion of the population. The agricultural sector has traditionally employed a large percentage of the labor force, but it has stagnated in many countries.

Increasing oil prices have exacerbated the already severe lack of foreign exchange; the Caribbean imports a great deal of its food and manufactured goods and thus oil prices are placing a staggering burden on the various governments. In some cases, basic infrastructure and social services are being allowed to decay.

Previous efforts by governments and donors to arrest deterioration and stimulate economic growth have largely been undertaken through the public sector. This has been done, for example, by establishing trade incentives through CARICOM or by channelling resources through government ministries for research and extension programs. The criticism of this approach, however, has been that it has not worked. Further, the question arises - as agriculture is largely a private sector endeavor, why utilize public sector institutions to provide services?

This question is precisely the issue addressed by the York Mission ^{1/} in their mid-1980 survey of agriculture in various Central American and Caribbean countries. The York Mission was undertaken at President Carter's request for the purpose of studying and exchanging views on ways to enhance agricultural productivity and to facilitate the development of a wider range of mutually beneficial relationships in support of increased productivity, between universities, businesses, research organizations and other private groups in the U.S. with similar institutions and groups in Central America and the Caribbean. Among the Mission's findings and recommendations were that donor/governmental programs aimed at stimulating agriculture were not very effective and in some instances were outright failures and new ways of utilizing the private sector more directly should be sought.

The rationale for this project flows directly from the strategy AID has taken for the region and is coincident with recommendations of the York Mission. AID's strategy is to encourage formulation of regional and national policies, strengthen regional development institutions, support common services and foster cooperation and collaboration among English and non-English speaking countries of the region. For the nearterm, this strategy will emphasize the productive sectors, export performance and efficient import substitution.

In several ways a project through LAAD represents an institution-building (or perhaps a foundation laying) effort in that it has the potential to stimulate agribusiness and agriculture in the Caribbean by providing the inputs and alternative markets that allow farmers to raise their productivity. Agribusiness in the private agricultural sector holds significant potential for growth with equity. Many of these activities are labor intensive, owned and operated by small families; they provide income and employment for landless populations, and at the same time are relatively efficient in their use of capital.

A major objective of AID's programs in the Caribbean is to stimulate economies, to provide the framework for growth with equity. In the Eastern Caribbean the objective goes even deeper in that economies first must be established. Given the limited mineral resources on many of the islands,

^{1/} "York" Presidential Mission on Agricultural Development in Central America and the Caribbean. Team headed by Dr. E. T. York, Chancellor State University of Florida and comprised of Dr. Quentine West, Director, Office of International Cooperation and Development, U.S. Department of Agriculture; Mr. Robert L. Ross, President, Latin American Agribusiness Development Corporation S.A.; Mr. David Garst, Garst and Thomas Hybrid Corn Company; Mr. Jonathan Dill, Acting Vice President for Development, Overseas Private Investment Corporation; Mr. Robert E. Culbertson, Research Professor, International Affairs Center, Florida International University; Dr. Richard Baldwin, Vice President for Research, Cargill Inc.

agriculture provides one of the only opportunities for developing economies. The Private Sector Task Force (under the auspices of the Caribbean Group) concludes that virtually all Caribbean countries have considerably greater agricultural potential than is presently being realized. Many countries have allowed agricultural production to run down, while some countries have significant agricultural potential that has never been realized. In addition to the export potential of agriculture and agroindustry, there are opportunities in most countries for domestic production of a greater part of the tourist industry's food requirements.

LAAD's efforts in the agricultural sector are based on a systematic approach. LAAD undertakes calculated interventions usually in the food processing portion of the producer-to-market chain. These enterprises are located in the middle of the backward-to-the-producer and forward-to-the-consumer system of linkages. Thus, LAAD sub-projects are ideally situated to draw the system more closely together, to pass more evenly the growth potential of one segment of the rural economy to the others, connecting potential producers with final markets.

As the agriculture sector is generally market oriented, highly decentralized and, for the most part, operates on a small-scale basis, the private sector has a comparative advantage over the public sector in providing necessary technical, financial and marketing services. Because of this, there exists in the Caribbean a great need for private sector institutions that can provide necessary assistance to agribusiness and small scale rural enterprises on a regional basis. This is exactly the role LAAD will play. Through focusing on agribusiness opportunities, LAAD can have a long-run impact on the agricultural sector as well as provide employment opportunities and increase export earnings.

Because LAAD will be developing projects as well as giving technical, financial and marketing assistance it qualifies as a private regional lending and assistance institution. Additionally, through the cofinancing feature of this loan, LAAD will be bringing lending institutions into the Caribbean region and into a closer relationship with agribusiness. This provides another vital private sector linkage which may have a long term impact on capital markets in the Caribbean basin.

In the short run, the benefits of LAAD sub-projects are the direct employment created and, through the resultant guaranteed markets to farmers, income and indirect employment to landed and landless groups. The increased quantities of processed agricultural commodities provide export earnings and increase the nutritional composition of local food. This loan to LAAD is particularly important because it will be focused in the Caribbean and especially the small states of the Eastern Caribbean. It is important because it represents a substantial effort to develop the private agribusiness sector, a segment of those economies often left unassisted by government programs that tend to move slowly. LAAD's capacity to quickly identify, develop, fund and implement sub-projects is vital given the immediacy of the area's needs.

B. DETAILED DESCRIPTION

1. Goal, Sub-goal and Purpose

The goal of this project is to improve the standard of living of the Caribbean poor. This will largely be accomplished through the increased incomes derived by beneficiaries of the project. The sub-goal is to stimulate economic and agricultural growth and create employment.

In terms of impact, the project will: 1) provide additional employment opportunities, particularly for rural small farmers and unskilled or semi-skilled rural labor in agroindustries; 2) increase incomes to members of the above target group; 3) increase production and productivity; 4) expand marketing opportunities; 5) facilitate new product development; 6) increase foreign exchange earnings.

Although agriculture has been in relative decline in many Caribbean countries, agriculture is still a principal contributor to GDP and as a sector it employs a large percentage of the labor force. Virtually all countries of the Caribbean have considerably greater agricultural potential than is presently being realized. This includes food for domestic production, which could supply a greater part of the tourist industry's food requirements, as well as production for exports. Further, agriculture is generally dominated by small holders. Agribusiness has a role to play in stimulating agricultural production, improving productivity and increasing rural incomes. The linkages between agriculture production and agribusiness are well documented. The benefits include increased employment and income opportunities as well as the stimulation provided to agriculture.

What is being addressed, in essence, is the task of building economies, especially in the mini-states. As the economies are weak and fragile, so are employment opportunities limited. The islands' resources are also limited, and consist primarily of the labor force and some agricultural opportunities. Thus, a focus must be on both immediate problems (such as unemployment and shortage of foreign exchange) and longer term objectives of establishing a framework for growth.

The purpose of this project is to initiate and expand private agribusiness investments. The purpose will be achieved by identifying deficiencies and constraints in agricultural production, processing, distribution and marketing systems and by applying capital, management and technical expertise to improve the functioning of those systems. To this end, LAAD will provide resources to those entrepreneurial opportunities in agribusiness which offer substantial potential for beneficial impact on a priority target group composed of small farmers and landless laborers.

2. End of Project status: An important objective of this project is a financially and institutionally stronger organization. As a condition to the AID loan, LAAD will undertake to secure \$6 million in private bank borrowings

LAAD will also attempt to raise \$1.5 million in equity capital to support the increased borrowings and provide a broader base for future borrowing.

The additional monies from AID and private sources will strengthen LAAD by providing the resources required to expand and increase loan and equity investments. A larger portfolio will in turn permit LAAD to further diversify its investments and reduce its country risk. The increased profits which should result from additional investments will allow LAAD to support an increased staff and a new office in Barbados.

As of October 1979, LAAD's assets totalled about \$30 million and included about \$27 million in outstanding agribusiness loans. By the end of project (approximately April 1984) these figures are projected to grow to \$53 million and \$48 million respectively. LAAD will also have entered the international capital market for the first time and, thus, have gained exposure to private capital sources. Finally, LAAD will have increased its staff and opened a new office in Barbados to service the E.C.

3. Beneficiaries: The primary beneficiaries of the proposed project are the rural poor in the areas where LAAD operates. This group includes both men and women and is composed of small farmers and landless workers; operators of mini-agribusinesses providing inputs to the LAAD-financed project may also be beneficiaries. The project will assist agribusiness entrepreneurs establish operations which have direct impact (through employment) and indirect impact (through linkages to production) on low income families. Sub-project activities will encourage small farmers in the area to increase or diversify production in order to supply raw materials 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 production or processing operations. Through such activities, their efforts are expected to be more productive than traditional methods, and employees of such rural agribusiness operations, both laborers and clerical workers, will be taught new skills in agriculture and business operations.

The specific benefits to women can best be demonstrated by the employment opportunities being filled by women in those sub-projects previously financed by LAAD. Probably about 40% of the labor force currently employed by LAAD-funded sub-projects is comprised of women. Employment opportunities are particularly good in fruit and vegetable processing, plants, seeds, and other labor intensive sub-projects where women constitute about 80% of the labor force. This pattern is expected to continue in the new project.

4. Description

a. Concept

LAAD has approached agribusiness as a system consisting of several basic components: farming, storage, distribution and marketing of farm products; processing, storage, distribution and marketing of finished

products; and tools, supplies and services to farmers. When providing financial and technical assistance to a project within any of these categories, LAAD considers the relationship to the entire integrated system. Such consideration is essential to determine the prospects for viability of the investments and very frequently reveals the need for additional financing for another element of the system to bring it into phase with the greater demands about to be placed upon it.

LAAD's relationship with a system insofar as it relates to any particular commodity, usually begins with a processing plant. The processor provides a market for farmers and the most effective channel for the provision of technical assistance and financing to them. Marketing becomes more a matter of mechanics than a problem when high quality raw material is properly processed. It is, however, essential that growers produce where there is market demand and that there be reasonable potential for access to this market through existing distribution facilities. LAAD has not usually financed projects which aim at highly sophisticated markets.

LAAD's role as a development institution is likely to be different under this program than it has been under previous programs because of the substantially greater impact of the resources to be utilized and the much more than corresponding decrease in resources available from other sources. For example, LAAD will be providing more comprehensive financial packages to fill gaps created by this situation. Pre-export and export financing, and short-term financing of routine raw material procurement, will be required as well as the traditional plant and equipment and working capital investments by companies to which the main mode of financing will continue to be term lending and equity investment. The Eastern Caribbean alone will receive two-thirds, or \$4 million, of the AID loan.

One of the most urgent requirements is the need for more substantial and formalized marketing services than in the past. From LAAD's beginning, it has helped potential exporters establish relationships with foreign markets and helped processors locate needed raw materials. LAAD has depended primarily on the expertise and knowledge of shareholders and staff to offer such assistance. Yet, there is a growing need to extend marketing services to companies and in some instances, government agencies with major marketing and raw material procurement problems. The precise response and the nature of these marketing services will have to evolve over the next few years.

Another important but difficult new type of activity LAAD would like to promote is the general category of services, the inadequacy of which constitutes a major bottleneck to development. Basic among these are warehousing, distribution and transportation systems. Investment in these three industries should ideally be integrated, and warehousing should be integrated to a continuing source of financing. Warehousing and warehouse financing for cotton, coffee, sugar and similar traditional crops are fairly adequate, but an adequate system does not exist for non-traditional commodities of the type being produced by many LAAD financed projects. LAAD is attempting to develop warehousing projects in several countries now with related financial and distribution services.

b. Project Features

The PID for this loan was submitted for a program totaling \$24 million; \$12 million in AID funds were to be matched by an additional \$12 million in bank borrowings and be directed towards Central America and the Caribbean. During the PID review, a decision was reached to finance the project in the Caribbean at a level of \$6 million to be at least equaled by \$6 million in borrowings from private sources plus LAAD's own funds. The \$15.3 million program for the Caribbean described below thus reflects an AID loan of \$6 million, \$2 million from private bank borrowings and \$7.3 million from LAAD's own resources. (The remaining \$4 million in private borrowings will be utilized outside the Caribbean.) An estimated 44 sub-projects will be financed at an average cost of \$350,000 each over four years.

(1) Geographical Focus

Funds drawn from the AID loan will be eligible for utilization in the Caribbean -- to include Jamaica, Haiti, Guyana, Dominican Republic, Trinidad and Tobago (under special circumstances), Barbados and the English speaking LDCs of Antigua, St. Vincent, St. Lucia, Dominica, St. Kitts-Nevis, Belize, Montserrat and such other islands as AID agrees. In order to focus attention on pressing unemployment problems and the need for a longer term focus on building economies, \$4 million of the AID loan will be earmarked for sub-projects in Barbados and the LDCs. As the project unfolds, it is possible that this allocation will be adjusted upward or downward, depending on LAAD's experience in identifying and developing viable investments.

(2) Sub-Project Financing

Most of the projects which will be financed under the new program are within categories of industries to which LAAD has directed financing in the past. These include the freezing and canning of fruits and vegetables, meat processing, sesame decorticating (shelling), oil extraction, growing and processing of basic grains, poultry and egg production, hybrid seed production, cut flowers and ornamental plants, and milk and dairy products.

LAAD has acquired much useful experience regarding these industries and has been able to demonstrate that provision of financing and managerial assistance has significant positive impact on local employment. In addition, there are categories of industries with which LAAD has little or no prior experience that can reach the same rural employment and small farmer targets achieved in the past. Among these are the local manufacture of implements, small machinery and equipment items needed by small farmers, cultivation and processing of tea and spices, special foods and certain aspects of the seafood industry. Basic grains, seed production, hog breeding and pork processing and the cultivation of vegetable dye plants are also examples of new industries that could be financed. Some will be experimental such as a bio-humas compost project in Barbados and a possible gasohol project on one of the LDCs.

LAAD will make funds available on either a loan or equity basis. At this time LAAD holds equity positions in eight firms worth an estimated \$1.1 million. LAAD's Board of Directors has approved a policy favoring additional equity investments and LAAD's management believes that over the long term such investments are necessary to provide LAAD with greater earnings potential. Part of the difficulty with obtaining additional investments relates to owner's reluctance to sell their equity. Another difficulty relates to LAAD's own reluctance to purchase the equity without having first established good personal and business relationships from which trust and confidence flows. In the Caribbean there would seem to be a demand for equity monies, as there is also a demand for a "partner" with whom a project can be developed. LAAD plans to consider increased equity investments as opportunity permits, but LAAD also has to consider its cash flow requirements during the shorter-term.

In an attempt to ration AID monies to sub-projects which have high employment potential, AID funds will be restricted to financing either new LAAD sub-projects or those existing subprojects in which substantial additional employment would be created by a follow-on investment. For those sub-projects which require follow-on financing, but in which substantial additional employment will not be generated, LAAD's own resources will be utilized. A sectorial breakdown of projects shows a heavy concentration in processing industries -- including canning, drying, meat and dairy products, seafood, poultry and grains.

(3) Co-financing

In order to facilitate financial strengthening and viability, LAAD requires access to international capital markets. Yet, access to these markets, as well as broader equity base, has been difficult to obtain. A major objective of this program is to tap the private capital market for resources to be utilized by LAAD for sub-projects meeting the same general criteria as set forth in AID loan agreements. It is estimated that the AID loan of \$6 million will be matched at least on a one-to-one basis by \$6 million of commercial or investment bank funds.

In the past, LAAD's ability to raise outside capital (debt or equity) has been constrained by several factors, including: the absence of an earning's record; the geographical locations of sub-project investments, namely high risk Caribbean and Central American countries; and the non-glamorous, sometimes slow growth field of small agribusiness itself.

LAAD's activities and risk taking were made possible by AID loans and a dramatic increase in borrowings from shareholder banks, which at this time total about \$6 million. However, resistance to substantial future increases in term borrowings from shareholder banks is expected because of a falling current ratio and higher country risks. In addition, these banks should not be the sole source of financing to LAAD. Additional diversified sources would be advantageous from both LAAD's and the banks' point of view. Without the infusion of additional long-term borrowings, LAAD will probably

have to make do with shorter-term borrowings, which, although supportive, are unsuitable for financing investment projects. Also, LAAD would be unable to consider any equity investments although the underlying need is growing.

At this time, LAAD has established an earnings record. Yet, because of political uncertainties in some countries where LAAD has a significant exposure, the private capital market could probably only be approached and additional funds for long term project financing mobilized under certain conditions. Foremost among these would be continued AID support for an expanded program. The long term nature of AID funding would significantly strengthen LAAD's balance sheet by providing for a continuing high current ratio and an acceptable liquidity level. It would also partially compensate for the high cost of borrowing on international markets. Lenders are wary of expanded operations in those very areas where LAAD operates. And, the amount of bank borrowings that can be raised is, in part, dependent on LAAD's financial strength illustrated by their debt/equity ratio, now at about 3/1. A higher ratio implies greater risk, which in turn would impair LAAD's ability to raise outside capital and at the same time increase the cost of that capital. Using an AID loan to leverage commercial bank funds on a one-to-one basis, which in turn will increase LAAD's debt/equity ratio to 3.5/1 by mid 1984 is reasonable. A debt/equity ratio substantially greater than this would call into question the financial soundness of this development finance institution. Access to additional funds through greater leverage is probably not possible, rather increased equity would be required first.

The funds from private sources will be utilized for sub-projects meeting the same criteria as AID loan funds. However, there are several factors which will cause a portion of the private capital funds to be used in areas outside the Caribbean. The issue is one of the customary business practice of fixed rate borrowings in the English speaking Caribbean versus LAAD's commercial bank borrowings, which will likely be at floating interest rates (that is 1-2% above prime or LIBOR 1/ rates). Essentially, it would not be prudent for LAAD to borrow at floating rates and onlend at fixed rates. Thus, if LAAD has \$6 million of commercial bank (floating rate) borrowings outstanding, it would like to have an equivalent amount of floating rate sub-project loans outstanding at the same time. This allows LAAD to compensate for higher costs of its borrowing (should interest rates increase) by passing on the increased costs in the form of higher interest rates to sub-borrowers.

During the intensive review and analysis of sub-project financing requirements, only about \$2 million in floating rate sub-projects could be identified, and these were all located in the Dominican Republic. The Dominican Republic, and to a lesser extent Haiti, offer the only opportunities for placing floating rate funds at this time. In all other countries fixed rates are the practice. Thus, for this project, \$6 million in AID funds, about \$2 million of bank funds and about \$7.3 million of LAAD's own funds will be utilized in the Caribbean. The additional \$4 million in private bank funds raised by LAAD will be utilized outside of the Caribbean. Of

1/ London Interbank Offered Rate

course, during implementation it is possible that LAAD may be able to identify sub-projects in excess of \$2 million which would accept floating rate terms.

(4) New Equity

Related to LAAD's ability to raise private capital is its ability and need to increase its equity base. LAAD's net worth presently totals about \$7.7 million, composed of \$3.2 million in common stock, \$2.2 million in preferred and \$2.3 million in retained earnings. The previous LAAD-Caribbean loan required LAAD to raise \$2 million in equity for the LAAD-Caribbean subsidiary. This was accomplished with great difficulty in part due to the reluctance of LAAD's existing shareholders to increase their ownership and the difficulty of attracting new shareholders because LAAD's earnings and growth prospects were not particularly attractive.

Despite a more favorable earnings record over the past two years, the prospects for raising additional equity are not bright. In the first place, LAAD will still be operating in high risk countries with small and medium-sized agribusinesses. Secondly, due to expected problem projects in Nicaragua and El Salvador (necessitating the need for increased bad debt reserves) earnings are projected to decrease in 1980 and 1981. Yet, the requirement for increased equity in order to support an expansion of lending operations remains strong. What is called for is a sharpening of focus (a corporate strategy) on how to attract equity investors.

Several potential markets seem attractive at this time:

- Existing shareholders who have not exercised their right to purchase preferred stock, but who might be persuaded to do so now.
- Commercial and investment banking establishments who are involved and committed to Caribbean and Central American investments.
- Central American or Caribbean-owned firms who are concerned about their "responsibilities" and "obligations" to the region.
- International development organizations, particularly in Europe, who have expressed an interest in the region and in agriculture.

These potential investors would seem to have several characteristics in common: (1) they are either presently doing business in the region and would like to prosper and expand; (2) they are not presently operating in the area, but would like to become familiar with local business practices and operations; and (3) they may have a corporate social responsibility to the region. Thus, LAAD will have to target its efforts at those investors not necessarily seeking immediate profits but rather on those with less tangible motives.

To this end, a covenant will require LAAD on a best efforts basis to aggressively pursue additional equity, with the target of raising \$1.5 million by the end of the project.

(5) Expanded and Strengthened Organization

A significant expansion into the Caribbean will require LAAD to expand its operations in order to adequately identify and develop new projects as well as monitor the expanded portfolio. Thus, LAAD will expand its Caribbean staff from one to three professionals by the end of the project. In addition, better marketing services to both Central American and Caribbean clients will be provided, probably through an organization such as the World Trade Institute.

Almost immediately after signing the AID loan agreement, LAAD will employ a new loan analyst and secretary to open an Eastern Caribbean office in Barbados. Within one year, another analyst will be employed and based either in Santo Domingo or Barbados. The analysts will work under the supervision of the President of LAAD-Caribe, headquartered in the Dominican Republic. These new individuals will have primary responsibility for identifying and analyzing \$4 million in sub-projects on the LDCs. It is expected that this task will be difficult and time consuming and will require significant assistance from other members of LAAD's staff and technical consultants during the four year time frame envisioned. A new organizational chart, together with a discussion of timing and nature of the proposed expansion, is presented in Section III, E-Institutional Analysis.

The \$4 million of private bank capital to be utilized in areas outside the Caribbean will be channeled to Central and South America. LAAD-CA will utilize a portion of these funds within Central America; however, it is likely that the largest portion may be utilized in South America, probably in Peru and Ecuador. This focus on South America offers LAAD several advantages. In the first place, LAAD will be able to further diversify its portfolio, thereby reducing risk. Secondly, expansion into new areas allows LAAD to obtain experience and undertake investment opportunities which might not be available in the Caribbean and Central America.

(6) Marketing Activities

LAAD previously operated an active marketing subsidiary, which was established to address product specific marketing problems of its clients. This subsidiary has been inoperative during the past few years in part due to operating losses suffered under its previous manager. In fact, the subsidiary engaged in more of a commodities trading function than was originally envisioned and was never profitable nor did it serve LAAD's clients particularly well.

Nevertheless, the demands for marketing assistance to many sub-projects remain strong. What is not clear is how these demands can best be met at a reasonable cost to both LAAD and the sub-projects. On the basis of servicing new and ongoing sub-projects alone, reestablishing the subsidiary by hiring a marketing specialist might be unprofitable. That is, if run as a

profit center, the operation would probably lose money. However, if the subsidiary was viewed as part of LAAD's overall corporate strategy, wherein this expertise was seen as necessary to a longer term expansion of operations, it may be reasonable to reestablish the subsidiary. Further, short term losses could possibly be covered (or reduced) by providing services to non-borrowing clients on a short term contract basis.

At this time LAAD is more concerned with the need to service clients by locating buyers than to engage in the longer term aspects of corporate development. Thus, to meet client requirements which cannot be met by tapping shareholder expertise, LAAD will likely utilize services of organizations such as the World Trade Institute and the International Marketing Group.

Both of these organizations have overseas expertise in at least some of the services LAAD will require. It is expected that these organizations would provide marketing expertise on an as-needed, short term basis for a fee paid either by LAAD or by the sub-project. However, it is possible that LAAD will reactivate the subsidiary by employing a marketing advisor at some point in the future should a particularly attractive individual be available and the demand for services warrant in-house attention.

(7) Sub-Project Selection Criteria

As noted previously, the goals of this project are to benefit the poor in areas where LAAD operates and to contribute to the development of agribusiness enterprises. Within this context, and to ensure that the sub-projects LAAD finances conform not only to economic and financial criteria but also to the areas of priority concern to AID (increased food production, employment, and rural farm income), sub-project selection criteria and a screening system for these criteria were developed and applied to the last two AID loans. These criteria remain valid, with some additions, and thus will be imposed on this AID loan.

Thus, all LAAD sub-projects must be related to agribusiness and will be required to meet the following criteria:

- The sub-project must contribute to the welfare of small farmers and/or landless laborers:

The degree to which this criteria is met will be measured 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.

- The sub-project must contribute to the development or improvement of an agribusiness system:

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

An additional criteria will be the sub-project's ability to contribute to the overall economic improvement of the country or region. To measure a project's projected achievement of this objective, LAAD will 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 growth. A sub-project which focuses on foreign exchange earnings (or savings) could, in fact, be somewhat capital intensive. In order to mitigate against an emphasis on capital intensive activities, projects of this nature will only be eligible when LAAD has determined that no labor intensive alternatives are available. An example could be a hydroponics project for the cultivation of lettuce for the hotel industry.

Lastly, AID and other donors have argued for the importance of regional development through trade and cooperation. It is expected that sub-projects such as cold storage facilities or transport systems could measurably increase inter-island trade at the same time increasing export earnings. These sub-projects would also be eligible for LAAD financing. On a case-by-case basis, sub-projects of the above category which may be based outside the LDC's per se will also be considered. For example, cold storage facilities for fruits or vegetables on Trinidad and Tobago in which principal sources of raw material are the LDCs could be an important sub-project. As a general criterion, when 51% of the raw materials to be marketed in such sub-projects has its origin in the LDCs, the sub-project will be eligible for funding. AID will approve all such sub-projects.

As in the case of the previous LAAD-Caribe loan, sub-projects can be grouped and classified into two basic categories for purposes of assessing a sub-project's target group impact:

- activities whose impact on the target group is primarily characterized by the creation of substantial-direct employment (e.g., significant numbers of jobs in company plants and/or on company managed fields, etc.) resulting in increased income generated.

- activities which 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 recommends as screening criteria a ratio of total incremental fixed investment per job created not to exceed a maximum level of \$8,000, and the determination that members of the target group are expected to be priority beneficiaries of the new jobs. The projected average investment per job created is estimated to be substantially below \$8,000, however. Based on actual experience under previous AID/LAAD projects, direct and indirect employment was generated at a cost of about \$3,000 per job.

The level recommended will not eliminate 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, trade development, development of new product or service with high growth potential for creating increased employment, and demand for raw materials, etc.).

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 \$8,000. Such activities, as for example establishment of a transportation system to deliver perishables to distant markets, may not produce immediate or large direct or indirect target group impacts, but hold the promise of alleviating existing constraints on increased agricultural production. 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. Additionally, the recommended level was chosen recognizing that to restrict LAAD financing only to sub-projects more closely meeting the average expected level could effectively constrain LAAD from meeting its cash flow and income projections, objectives which are essential if LAAD is to remain financially strong.

For Category "B" (Indirect Benefits), the Project Committee recommends that a LAAD-selected sub-project satisfy the following criteria: 1) the development, processing, or handling of typical small farmer crops; 2) location of the plant in an area where substantial poor are located; and 3) demonstration of involvement of members of the target group in the sub-project's economic activities through linkages described below.

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% or more) is produced by small farmers, be considered eligible. In the vast majority of situations, this will be satisfied by sub-projects which process fruits and vegetables. However, there are also 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.

Although, at this time, the demand analysis does not indicate any sub-projects which would finance sugar, citrus and palm oil related crops, it is possible that such sub-projects could be identified during the course of the loan. If so, sub-project analysis will pay particular attention to the projected export production and export markets envisioned. Due to the likely small size of these sub-projects, particularly on the LDCs, it is not expected that they would have any effect on the U.S. market or U.S. producers. However, in light of the AID's Policy Determination No. 71 which calls for careful analysis of such activities, AID will review and approve any such proposals.

With regard to the criterion of small farmer linkages to sub-projects, the following list illustrates how such linkages can be verified. LAAD's analysis of the sub-project proposal will affirm that one or more of these linkages occurs.

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 (pickup 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 and laborers shareholders in the agribusiness operation
10. Assisting small farmers with either group credit or credit-in-kind provided by the agribusiness.
11. Assisting small farmers 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.

The Project Assessment Form (Annex I) designed by LAAD in the previous LAAD-Caribe loan will again be required for this project. 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. This combined approach serves as a screening of proposed project vis-a-vis AID/LAAD goals, before any commitment of resources is made by LAAD. The Assessment Form should be completed twice: 1) prior to LAAD initiation of intensive prefeasibility analysis with at least the description section of the form completed, and 2) prior to commitment of funds for the activity, after the project analysis is complete. LAAD will be required to complete the Form and apply the screening criteria to all sub-projects.

5. Relationship with Other Institutions

During the LAAD-Caribe loan, LAAD collaborated with the CDB in project development of several proposals. In the case of the LDCs it is likely that collaboration will increase, in part due to the fact that large numbers of viable subprojects are not readily available.

In addition to the CDB, LAAD is likely to increase its dialogue with the locally-based government owned Development Finance Corporations on each LDC. These DFCs generally represent not only a source of potential financial support, but also the government's channel for undertaking private sector investments. Although LAAD is a private sector operation and has traditionally operated with other private businessmen in financing sub-projects, the joint public/private sector approach may be more common on the LDCs. LAAD may find that DFC participation may be the most practical (and quickest) means of getting a sub-project underway.

As part of the intensive review, DFC operating practices, rules, regulations and legal restrictions were investigated. Generally, there are no restrictions which will constrain LAAD's operations in the LDCs. As in most countries, however, LAAD will be required to register with LDC governments in order to obtain foreign exchange allocations for repayment of principal and interest on its loans. No problems are foreseen, as the mini-states are seeking foreign investors.

As indicated in previous studies, however, DFCs have often become substitutes for governmental policies or plans. That is, instead of becoming instruments of policies, the DFCs have sometimes become dispensers of monies without working within a framework of longer term plans. The financial viability of several DFCs is questionable because of their small size and this problem is compounded by poor management and investment in unsound sub-projects. Under AID's Employment/Investment Promotion Projects, technical assistance is being provided to the DFCs which have the potential for longer term viability. LAAD will, possibly, find collaboration with the DFCs difficult. Yet, it may also find DFC involvement crucial to success of a project. Undoubtedly the situation will vary island by island.

III. PROJECT ANALYSIS

A. ECONOMIC

1. Importance of Agriculture to Caribbean Economies

Despite a gradual decline in the share of agriculture in the total output of Caribbean economies, the agricultural sector of these economies continues to be, for most countries, the most important employer and the major source of export earnings. Nonetheless, the agricultural sectors have not made a contribution to growth commensurate with their absolute importance. Furthermore, Caribbean agriculture continues to be dominated by the "traditional" export crops -- principally sugar and bananas -- whose price fluctuations have contributed to recurring balance of payments difficulties.

The countries of the region present a wide variety of circumstances and economic conditions. Per capita GNP ranges from a low of \$270 per year in Haiti to a high of (excluding oil producing Trinidad and Tobago) \$1,760 per year in Barbados. The prominence of the agricultural sector varies from 46 percent of GNP in Haiti to only 4.2 percent in Antigua. Almost everywhere the agricultural sector is the largest single source of employment. In Haiti, fully 70 percent of the labor force is found in the agricultural sector; in the Dominican Republic, almost 60 percent of the labor force is found in agriculture.

The importance of agriculture and related sectors extends beyond their sheer magnitude. With a few notable exceptions (e.g., Belize) the countries of the region suffer from chronic high unemployment rates. Without exception, agriculture provides more employment per dollar of output than other sectors, often substantially more. For example, in the Dominican Republic, agriculture accounts for 22.2 percent of GDP but 58.2 percent of total employment. This strongly suggests that among alternatives which produce comparable increases in total output, those in the agricultural sector will provide a larger (often substantially larger) increase in total employment. Although there is little direct evidence, it appears likely that the same is true of agribusiness activities themselves, apart from whatever effect expansion of agribusiness activity has on the agricultural sector.

In a similar way the expansion of agriculture and agribusiness may ameliorate balance of payments difficulties. Many of the countries of the region suffer from severe and chronic foreign exchange shortages. Both agriculture and agribusiness appear to have the potential to alleviate these situations. Both agriculture and agribusiness appear to have a lower import content per dollar of output than other manufacturing and service industries (including tourism). If the agriculture or agribusiness output is intended for domestic consumption, this means that output expansion can occur without aggravating balance of payments difficulties. If the output is destined for export markets, each dollar of export sales will make a larger net contribution to domestic income and growth than would other alternatives.

Despite its prominence in the Caribbean economies and its crucial role as employer and source of foreign exchange, the agricultural sector has not, until very recently, received a level of support and encouragement from public sector institutions in these countries proportionate to its importance. Research and extension services have been limited and where provided have tended to focus solely on the traditional export crops, traditionally large-farm crops. Little attention was paid to credit and marketing needs of small farmers, who often provide the bulk of the nation's food supply. As a result, the region's inherent problems of poor soils, high transportation costs, and small domestic markets, have been compounded by a lack of development or use of improved seed varieties, inadequate or improper use of fertilizers and pesticides, and a widespread (and to date largely accurate) conviction that to be a farmer is to be permanently consigned to a life of drudgery and privation.

2. Role of Agribusiness

More than in most countries, the development of agricultural activity in small Caribbean economies depends critically on the availability of purchased inputs, and on processing, storage, transportation, and marketing services for agricultural outputs. The absence of one or more of these ancillary goods and services can make an otherwise promising product or technique impossible to develop or introduce.

The term agribusiness then includes a broad spectrum of manufacturing and service industries whose common element is that they relate to the agricultural sector either as a supplier of its inputs or as a consumer of its outputs. The extent and growth of the agribusiness sector in the Caribbean Region is difficult to determine since it cuts across a number of conventional classifications of manufacturing and service industries. It is, however, safe to say that agribusiness is already a major contributor to employment and output in the Caribbean region.

Far more than in other areas of the world, the Caribbean, with its small territories in relative isolation, faces a situation in which specific agribusiness projects are a necessary condition for specific agricultural developments. In the eastern islands in particular, the availability of warehousing, transportation, and marketing services will determine the viability of export, and even domestically oriented agricultural development. Similarly, the development of processing industries, which either reduce the bulk of agricultural shipments or transform perishable products into a more easily transportable form, will often make the difference between a feasible line of agricultural development and one which is not economically viable. In short, agribusiness is both an important sector in its own right, and an important determinant of the development of the agricultural sector itself.

3. The Financial Sector in the Caribbean

Private sector financing in the English-speaking Caribbean is available from commercial banks, from national development finance corporations, and, in some instances, from the CDB itself. Of these, private commercial banks, predominantly foreign owned, have been the most significant. For example, in Barbados, 80 percent of total private sector credit is supplied through the commercial banking system. Commercial banks have traditionally lent to finance trade and more recently, for personal loans. In evaluating loans, banks have relied primarily on the financial position of the borrower; banks have not developed a capability for analyzing the merits of individual projects. In recent years, banks have shown increased willingness to lend for longer terms and for tourism, industrial, and construction projects, where the borrower's financial position is sufficiently secure to satisfy the fairly conservative requirements of the lender.

Commercial bank lending in the English-speaking Caribbean is predominantly at fixed interest rates and predominantly for short terms. Medium term loans of three to five years are undertaken, however, and some banks have been willing to extend five year loans with ten year amortization schedules, with the expectation that the loan will be renewed at the end of five years. Almost all lending is at a fixed interest rates although there have been some loans extended with annually adjusted interest rates. Banks in the region are highly liquid and interest rates are frequently below the prevailing rates of inflation.

Although commercial banks have shown a willingness to undertake limited medium-term financing, this lending has shown a decided bias toward large firms with well established track records whose financial capability is well known to the bank. In part, this represents an inevitable and even commendable spirit of caution. In part, it represents a continuing tendency to evaluate the borrower rather than the loan, which can lead to sound projects and profitable loans going unfinanced.

A second major source of private sector financing in the English speaking Caribbean is the national development finance corporations. With a few notable exceptions (chiefly the Barbados Development Bank and the Development Finance Corporations of Belize), these institutions have been plagued with financial difficulties. In part, this is an inevitable result of the small size of most of the institutions which makes it difficult even to cover their operating costs, much less to build up reserves to cover inevitable losses. Over and above these, the DFCs have been undercapitalized, leading to highly leveraged portfolios and a highly precarious financial position. Their operating expenses have been excessive. Lending decisions have been politically motivated. Finally, the general level of financial

monitoring and control has been lax. With these problems, the DFCs have faced great difficulties even acting as a simple conduit for funds from official sources. They have not been able to develop a role as an independent source of project financing.

Finally, even within their limited capabilities, the DFCs undertake almost no promotional activity and make no attempt to solicit or develop potential projects, either in accordance with national development priorities or otherwise.

In the Dominican Republic the overall situation is somewhat different. The commercial banking sector is, if anything, even less inclined to engage in activities beyond the trade and other short-term financing which commercial banks have traditionally undertaken. This is largely a consequence of very high reserve requirements and low interest rate ceilings which limit deposits and discourage lending in all but the most riskless of circumstances. However, the Dominican Republic has a group of extremely active development finance institutions and other non-bank intermediaries which have played an active part in the financing of private sector development projects.

Haiti has seen a substantial increase in both the number and the value of assets of the privately owned commercial banks in recent years. These have played an increasingly active role in the financing of the private sector. In addition, the publically owned Agricultural and Industrial Development Institute (IDAI) has emerged as a major source of financing (although to date largely as a conduit for financing originating with the IDB) for private sector agricultural and industrial projects. IDAI has had some problems, particularly with its agricultural portfolio, with high levels of arrearages, apparently as a result of inadequate appraisal standards.

Throughout the Caribbean, almost without exception, there are ample funds available for lending to the private sector, often at surprisingly low cost, either from private or public sources. What has often been lacking is an ability and a willingness to seek out and adequately judge the merits of projects to be undertaken by small and medium sized borrowers. This has been a particularly serious obstacle to the development of the agricultural and agribusiness sectors.

4. Economic Impact of LAAD Activities

(a) Impact on Investments:

In addition to the proposed loan of \$6 million, LAAD has committed itself to exercise its best efforts to raise \$1.5 million in additional equity capital. LAAD also plans, as outlined elsewhere, to obtain \$6 million in term loans at floating interest rates through international

banking sources. LAAD expects that there will be some resistance on the part of its lenders to devoting more than \$2 million of the resources to the Caribbean because of a need to diversify investments to minimize risk. In addition, there is the problem of placing floating rate funds. However, LAAD has stated its intension to channel \$7.3 million in reflows from previous AID-financed loans to the Caribbean. Thus, the \$6 million AID loan can be expected to generate an additional \$9.3 million in new external investment resources for agribusiness ventures in the Caribbean.

In addition to external resources, investments by LAAD are undertaken as joint ventures and LAAD's local partners typically put up 100% of LAAD's own contribution. All of this sum is not necessarily additional to the investment that would have taken place in these projects or others, in the absence of LAAD's initiative. However, given the nature of LAAD's initiative and the general lack of capital markets throughout the region, it is likely that, in fact, much of the local investment is additional. Thus, the \$6 million loan from AID may generate almost \$31 million in new investment in the Caribbean.

(b) Impact on Total Output

For a number of reasons, the contribution of LAAD's diverse activities to total output of the countries in which it will operate is extremely difficult to measure. This is due to the small size of most of the economies involved, which makes it difficult to ignore likely changes in factor and output prices, as well to the slack labor and other factor markets, which make wages and other prices, poor proxy for the true opportunity cost of labor and other factors.

Given the very high levels of unemployment in the region and the generally slack market for other factors, it may be only a slight exaggeration to estimate that the total output at LAAD sponsored enterprises is a net addition to national output. In that case, given that the marginal output/capital ratio for LAAD investments is estimated from previous experience at .67, the value added through this project could be as much as \$21 million annually ($31 \times .67$) during the first phase of utilization and could expand to a cumulative figure of \$63 million annually by the end of the project as reflows are reinvested.

In addition, these figures refer only to output resulting directly from LAAD's involvement. Additional indirect impact, particularly on agricultural production, is anticipated.

While these figures slightly exaggerate the impact of the project, since some factors used here will inevitably be bid away from other productive uses, it is evident that the total impact of the project on aggregate output is substantial.

(c) Export Promotion:

In LAAD's earlier experience in Central America, it was estimated that every dollar invested generated 1.4 dollars of additional export revenues per year. In the smaller-economies of the Caribbean, it is likely that additional exports will be at least this amount.

(d) Employment Generation:

With a few exceptions, activities in the agribusiness sector tend to have a higher labor component than other kinds of manufacturing and service industries. Indeed, based on LAAD's previous experiences, it is estimated that one new job is created for each \$3,000 invested. Thus, as many as 10,000 new jobs could result simply from first round investments; more would result as reflows are reinvested.

(e) Impact on the Target Group:

The primary beneficiaries of the proposed project are 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, many 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. 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 domestic, regional and foreign markets. The potential for increasing agricultural productivity in the Caribbean region is significant although difficult to quantify. Many of the best opportunities seem to be with those crops which could be marketed within the region.

B. Financial Analysis:

1. Demand for Agribusiness Financing

The following analysis covers specific private sector agribusiness investments which, if carried out, would impact on key target areas. The analysis is by no means exhaustive, but it is representative of what can be done. No effort was made to identify projects in Guyana and Jamaica because local controls and conditions make it difficult for a foreign financial institution to operate there at this time. However, numerous projects could probably be found in those countries if the climate for investment changed.

Most of the projects which would be financed under the new program are within categories of industries to which LAAD has directed financing in the past. These include the freezing and canning of fruits and vegetables, meat processing, sesame decorticating (shelling), essential oil extraction, growing and processing of basic grains, poultry and egg production, hybrid seed products, etc. There are also categories of industries with which LAAD has little or no prior experience that can reach the same rural employment and small farmer targets aimed at in the past. Among these are the cultivation and processing of tea and spices, special foods and certain aspects of the seafood industry, basic grain seed production, hog breeding and pork processing and cultivation of vegetable dye plants. Another new type of activity is the general category of services, the inadequacy of which constitutes a major bottleneck to development. Basic among these are warehousing, distribution and transportation systems.

Somewhat greater emphasis will be given in the program to sub-regional integration projects. The case for sub-regional agribusiness integration is strong in the Caribbean, but is slowed by political constraints.

Most of the projects identified would produce substantial, rapid and direct benefits in terms of rural employment and create new markets for small farmers. Many projects will generate additional foreign exchange. LAAD's investment portfolio produces new export earnings many times the annual payout to LAAD of interest and principal. Project selection will continue to place emphasis on the net balance of payments effect of the program.

The project list does not include all of the projects under consideration and new ones will inevitably replace a number of them. They are in various stages of development. Some are only in the promotional stage, while others have been in operation for several years but need further financial assistance to reach maturity. The dollar figures are calculated estimates in some cases and precise in others. Where they are calculated, it is on the conservative side assuming, in most cases, substantial financing from sources other than LAAD.

Summary of Findings

The demand study has identified \$16.5 million in new financing needs for 46 projects in 10 Caribbean countries covering a wide range of agribusiness activities.

The sectorial breakdown of the projects sampled shows a heavy concentration in food processing industries, including canning, drying, meat and dairy products, seafood, poultry and grain projects. Country summaries are presented in Annex F. The breakdown by industry is summarized as follows:

INDUSTRY SUMMARY

(US \$000)

	<u>Amount</u>	<u>Number of Projects</u>
Food Processing	3,850	9
Vegetable oils	1,600	4
Meat	400	2
Grains	750	1
Storage and Transportation	1,450	4
Energy	1,000	1
Poultry	965	4
Cattle and Hogs	1,600	4
Fresh Fruit and Vegetable	860	4
Spices	680	3
Farm Inputs	1,850	5
Other	1,500	5
Total	<u>16,505</u>	<u>46</u>

2. Background and Analysis

LAAD's performance under AID's previous three loans has been exemplary. All loans were disbursed within the original three year time frame envisioned and most of the objectives of each of the programs were achieved. LAAD's financial projections, in terms of sub-loans outstanding, total assets and liabilities as well as profits have been accurate over the years. An analysis of the balance sheet and income statements for LAAD-Consolidated at year end presents the following picture:

(\$ 000)
Year Ended October 31

	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
<u>Balance Sheet</u>				
Total Assets	14,093	18,115	20,106	29,974
Total Liabilities	9,152	12,120	13,397	22,669
Stockholders Equity	5,994	4,941	6,709	7,305
Retained Earnings	611	894	1,300	1,896

Income Statement

Total Income	1,096	1,493	1,869	2,746
Total Expenses	845	1,118	1,358	2,041
Net Income	251	374	511	704
Provision for losses	100	169	291	498

Ratios

Current Assets/ Current Liabilities	1.3/1	.98/1	2.3/1	1.12/1
Debt/Equity	1.85/1	2.02/1	1.99/1	3.10/1

Of the almost \$30 million in total assets, \$27.6 million are sub-loans to agribusinesses and \$1.1 million represent equity investments in eight sub-projects. The largest portion of \$22.7 million in total liabilities is represented by \$16.2 million in outstanding loans to ATD. In 1979 LAAD was able to negotiate two additional unsecured loans from private banks. The first is a \$3.0 million revolving line of credit agreement renewable on March 31, 1981, at various interest rates not in excess of a 1-1/8% spread over the London Interbank Offered Rate (LIBOR). (As of October 31, 1979, LAAD had utilized all but \$50,000 of the credit line.) The second is a seven-year loan for \$3.0 million at the same interest rate as the line of credit. Both loans are from shareholding banks.

Of particular interest is LAAD's allowance against possible losses. Charges against income for this allowance have increased from \$100,000 in 1976 to \$1,028,000 in mid-1980 and are projected at \$2,240,000 by October 1981. The allowance will continue to grow in order to provide for possible losses in Nicaragua and El Salvador and allow for increased country risks elsewhere. A summary of the status of LAAD's portfolio in those countries follows:

-- In Nicaragua all projects continue to operate. However, none is able to obtain foreign exchange from the Central Bank in Nicaragua; a few are illiquid and cannot meet their obligations. LAAD has received no payments from Nicaragua for over one year. LAAD budgets for 1980 - 1981 assume no payments of any kind from Nicaragua, but normal payments thereafter. LAAD anticipates that the foreign debt negotiations will lead to a resumption of interest payments next year.

-- In El Salvador, despite a recent three month interruption in payments, LAAD is presently almost current with all projects. LAAD believes that payments will continue so long as the political situation does not deteriorate any further.

The potential financial impact of a permanent loss of the total portfolio in both countries would be as follows .

-- In Nicaragua the total portfolio stands at about \$2.1 million. A collapse of all projects would have no impact on earnings or cash flow through October 31, 1981, since it has been excluded from projections. Beyond that date, it would reduce the rate of growth in earnings and business volume, but would not cause either to decrease.

-- In El Salvador the portfolio stands at about \$2.2 million. Permanent loss would lead to a reduction in earnings each year by \$200,000 below projections beginning with fiscal year 1980. It would also reduce projected cash flow for investment by about \$500,000 per year. It would probably cause LAAD to cease operations throughout the rest of Central America for 6-9 months while liquidity is strengthened by repayments from Guatemala, Honduras and Costa Rica. It would force LAAD to increase reserves against possible losses dramatically and reduce earnings to the point that future growth based on retained earnings would be severely curtailed for at least three years. However, even the entire loss of both portfolios would not prevent LAAD-Central America from meeting all of its interest and principal payments to its creditors on time.

Because of the higher risk now facing LAAD, it has decided to further strengthen reserves against possible losses. LAAD presently establishes such reserves by setting aside 4% of each disbursement over a 12 month period. Effective May 1, 1980, LAAD established additional reserves each month equal to 1/2 of 1% on the total exposure with any project which is over 90 days delinquent in its obligations. This new policy now applies to the entire portfolio in Nicaragua and to a few problem projects in other countries. In this way, LAAD hopes to have built up total reserves by the end of this fiscal year of \$1.8 million and \$2.2 million by October 31, 1981. This would provide reserves against all known problem projects and still have enough left over to cover 60% of the exposure in Nicaragua by the end of this fiscal year. One year after that, LAAD should be able to reserve against identifiable risks and cover Nicaragua completely. However, the present policy would be insufficient to cover reserve needs for El Salvador if that country were to deteriorate to the extent that Nicaragua has.

3. Projections

Projections for 1980-1985 on the basis of a new \$6 million AID loan and \$6 million in private bank borrowings are summarized below for LAAD-Consolidated; detailed projections for both LAAD-Consolidated and Caribe are contained in Annex G together with assumptions.

(\$ 000)

	<u>Year Ended October 31</u>				
	<u>Actual</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
<u>Balance Sheet</u>	<u>6/30/1980</u>				
Total Assets	31,100	39,250	45,300	51,200	54,700
Total Liabilities	22,119	30,180	34,940 ^{1/}	39,240 ^{1/}	42,630 ¹
Stockholders Equity	7,700	9,070	10,360	11,160	12,070
Retained Earnings	2,291	3,110	3,830	4,630	5,540
<u>Income Statement</u>					
Total Income	2,288	3,970	4,410	4,760	5,180
Total Expenses	1,535	2,460	2,650	2,890	3,170
Reserves & Depreciation	384	610	800	800	800
Net Income	369	900	960	1,070	1,210
<u>Ratios</u>					
Current Assets/ Current Liabilities	2.7/1	2.2/1	1.9/1	1.4/1	1.4/1
Debt/Equity	2.9/1	3.3/1	3.3/1	3.5/1	3.5/1

A major objective of this loan is a financially stronger organization. This will be accomplished by a new AID loan, additional private bank borrowings and increased equity. Further, by expansion into South America LAAD will begin to diversify its portfolio, thereby reducing country risks to an even greater extent. By fiscal year end of October 31, 1984, LAAD's total assets would grow to almost \$55 million and net income is projected at \$1.2 million. LAAD's debt equity ratio will be 3.5/1 and its current ratio 1.4/1 return, on new worth will be about 9%. Cash surplus after dividends ranges from \$3.9 to \$6.1 million per year and provides sufficient cushion to cover repayments of principal and interest on AID loans and private borrowings. Further liquidity levels are adequate (as reflected by the good current ratio) and the 3.5/1 debt/equity ratio represents a conservative position considering the country risks faced by LAAD. Other development banking concerns have ratios as high as 15/1.

Lending rates under the previous LAAD-Caribe loan ranged from a low of 9% in Barbados to 12% in Haiti and Panama with an average at about 10.5%. No significant variations are expected in this new loan; however, the average could be lower as lending rates in the EC are likely to be in the 9-10% range.

^{1/} Includes reserve for possible losses.

C. SOCIAL ANALYSIS

Discussion will center on the English-speaking LDCs, where approximately 50% of AID loan funds will be utilized. Nevertheless, target groups and socio-economic conditions are illustrative for the other Caribbean countries.

1. Target Groups and Beneficiaries

The most direct beneficiaries of the project will be the processors of agricultural commodities. Those who comprise this group will be largely young and semi-educated people who have already acquired some previous experience in business management, or rural-based local leaders such as former plantation managers. They will be recipients of both credit and technical assistance, which will be provided from the preinvestment stage through the start-up of operations. The bulk of the employees of the enterprise will be taken from the pool of unskilled rural and urban poor, a group characterized by severe un-and/or underemployment. The benefits received by the employees will be mostly in the form of regular wages and, to a more limited extent, training provided by the enterprise. At the same time, however, they -- along with the general population -- should also gain from the increased processing capacity for indigenous food products, which would simultaneously reduce dependence on food imports (presently ranging between 20-40% of commodity imports) and lower prices at the market place.

The secondary beneficiary group of this project will be the small farmer sub-sector. Due to faulty statistical data and a variety of differing definitions of "small farmers" among the countries of the region, it is difficult to even roughly estimate the number of potential beneficiaries in this category. According to Zuvekas (1978a-1),¹ "perhaps 60,000-63,000 persons were (in 1970) engaged in farming for their own account to one extent or another." However, a large number of these farm plots of land of less than one acre, earn a large portion of their income from non-farm sources. A more realistic figure for the number of small farmers -- owning between 1 and 25 acres -- might be 30,000 (Ibid. 5).

Statistical data on farm income also suffer from numerous confusions. It is often reported on a gross cash basis, thus leaving out production costs (which should be subtracted) and the imputed value of food produced and consumed on the farm (which should be added). Furthermore, non-farm income is apparently underestimated in most surveys. The net result of these weaknesses in the data is to give the impression that per capita farm income in the Eastern Caribbean is as low as that found in countries such as Haiti. (For example, the CDB/AID Small Farmer Study Survey of several years back places the average cash income per capita including farm and other income, at just U.S. \$76.) After reviewing available income data from several countries, Zuvekas concludes .

An examination of other level-of-living indicators suggests that this picture is very misleading. The basic human needs of both rural and

^{1/} Zuvekas also includes Belize, The Virgin Islands and several other small islands in his study.

urban population appear to be fulfilled to a higher degree than in most other Latin American and Caribbean countries. Nevertheless, living standards for most people are still well below what is desirable, and in a number of countries they have deteriorated during the 1970s (1978b.2).

The small farm sub-sector can also be characterized by the farmers' relatively advanced age and high educational attainment relative to other developing countries. Two-thirds of the farmers are over 45 years of age. This figure does not vary significantly among small farmer size subgroupings, although there does exist variation from island to island. The high mean age of farmers may be contrasted with a generally much younger labor force throughout the region. This difference is due to widespread desertion of rural zones in recent years, as agriculture has stagnated or declined in importance (and preference).

The LDCs are characterized by open unemployment levels which average between 13% and 23% on most of the islands. Unemployment is largely concentrated among the younger age group, and in urban areas. This is largely due to the fact that many rural youth migrate from the farms to the cities, attracted by the lure of job possibilities in government, trade, tourism, and other services. Many young people prefer temporary urban unemployment to work as small farmers or farm laborers. High national unemployment rates notwithstanding, labor shortages sometimes exist during key periods of the crop cycle. Negative government attitudes toward agriculture contribute to this problem. Further, it is likely that seasonal fluctuations in agriculture and tourism increase the unemployment levels by as much as 50% during a 3-4 month period of the year.

In spite of steady migration to urban areas, agriculture remains a critical area for employment and investment, as production declines have led to rapid increases in food imports. In the various countries of the Eastern Caribbean, from 10% to 40% of the total work force is engaged in agriculture.

This project will benefit small farmers through their two major economic activities . (1) as growers/suppliers of raw materials used by the agribusinesses, and (2) as consumers of the lower-cost production inputs produced by the labor intensive enterprises. It is clear that the small farmer will be a major participant in the establishment of agribusiness by virtue of the fact that the overwhelming majority of production comes from small farmers. Most agricultural enterprises will have to depend on small farmers for raw materials. With technical assistance, there is reason to believe that motivation to increase production will be strengthened. To tap this potential, the present project will support mechanisms designed to create incentives, both social and economic, for producers and processors alike.

One system which has already been applied with favorable results in the Caribbean Region is contract buying of future small farmer crops in order to assist in stabilizing farmgate prices, reducing risk, and stimulating grower/supplier cooperation and coordination. Contract buying can, if efficiently planned and managed, effectively link the grower to a secure

and expanding market, while at the same time assuring an adequate supply of raw materials to the agribusinesses. An example of this is seen in the program begun in 1976 by the St. Vincent Marketing Board. Although similar systems on other Caribbean islands are less efficient (and occasionally disasters), contract buying, if carefully designed and executed, holds great potential.

Another method of inducing cooperation between growers/suppliers and processors is through the establishment of a retained earnings reserve which is based on withholdings from payments on contract purchases and transfers equity holdings to the growers/suppliers. This system has been successfully used in a copra processing plant in Dominica. According to a number of agricultural development specialists, this form of investment would be acceptable to LDC small farmers, especially with increased security resulting from their selling arrangements with the enterprise.

2. Role of Women

At the sub-project level, this loan can be expected to have a major impact on women in two ways. First, it is clear that women play an important part in the Caribbean agricultural economy. In addition to their traditional role as cash earners, financial managers, and child-raisers, they frequently have a key place in the production and marketing of food crops.

The fragmentary data from the Small Farmer Survey lead toward the conclusion that women in the 15 to 64 age group outnumber men by approximately 50%. 13% of those classified as farm managers, supervisors, and farmers in the region were women in 1970; in four countries, more than 20% of this group were women. Furthermore, 31% of "other agricultural workers" were women (Zuvekas 1978a.9). Although these statistics are rough at best, they do indicate that women play a significant role in the agricultural sector.

Beyond this, it is clear that women constitute the overwhelming majority of the LDC agricultural marketing intermediaries (called "hawkers," "higglers," "Hucksters," or "vendors"), at least for food crops. As more numerous and reliable outlets for their products are established, these women producers and intermediaries will be able to expand their activities and increase their personal incomes.

Women will also benefit as small labor-intensive plants and factories are established, opening up more off-farm employment opportunities, especially in assembly-line type jobs (of which women traditionally occupy a significant percentage)

*References: Zuvekas, Clarence, A Profile of Small Farmers in the Caribbean Region, AID, 1978(a); A Survey of the Literature on Income Distribution and the Fulfillment of Basic Human Needs in the Caribbean Region, AID/USDA, 1978(b).

D. INSTITUTIONAL ANALYSIS

1. Present Organization

LAAD, LAAD-CA and LAAD-Caribe have operated with a small, experienced and skilled staff with a minimum of bureaucracy. Project analysis is intensive and the approval process is as simple as reasonable prudence permits. Since the staff is composed only of senior personnel, they are given considerable latitude to make decisions which facilitates rapid development of projects and disbursement of funds.

The background section of this PP discussed LAAD's organizational structure and subsidiary arrangements. The focal point for this loan will, of course, be LAAD-Caribe which is presently staffed by one person based in Santo Domingo. This individual is normally the first point of contact for a potential borrower. He is responsible for sub-project identification, prefeasibility analysis and arranging technical reviews as needed. At the present time he does not have authority to approve sub-project loans.

2. Proposed Organization

LAAD does not propose to alter its general style of operations in order to undertake this new AID program. However, to handle the increased focus on the Eastern Caribbean, LAAD will immediately employ a new financial analyst to be based in Bridgetown. This individual will be a middle level professional preferably familiar with the investment climate and business practices in the Eastern Caribbean.

The increased volume of project development in the Caribbean along with the need to manage a growing portfolio there will also require the hiring of an additional financial analyst who will be based in Santo Domingo. This individual will be employed within the first year of the program.

The administrative staff based in Miami might not be increased substantially from its present level although its responsibilities would be expanded. The Treasurer will have to undertake the task of raising the \$6 million in private bank borrowings contemplated under the program. The substantial increase in total borrowings will also entail tighter controls over cash flow and liability management.

The Controller will design and implement a new computer program to prepare monthly financial statements. At present, this program only covers the portfolio. The new program will allow for more detailed and quicker analysis of expenses, and thereby contribute to tighter cost controls. The controller will also have to spend more time auditing and controlling a rapidly growing portfolio.

The accountant will be responsible for managing the new computer accounting system.

As LAAD begins to undertake investments in South America, it is likely that a new loan analyst will be employed. This individual will probably be based in Peru or Ecuador and will be responsible for project identification and development in those countries.

A new organization chart is included in Annex H.

E. ENVIRONMENTAL ANALYSIS

The initial environmental examination (IEE) which recommended a negative determination was approved in July 1980. The IEE discussed the nature and potential impact of agribusiness sub-projects of the type likely to be financed by LAAD and concluded that impacts were generally negligible or minor.

As part of the sub-project feasibility analysis, however, LAAD will be required to form an opinion on the likely impact considering: the type of activity to be financed, its physical location, the technology to be employed and the magnitude and significance of any impact. AID will review LAAD's opinion prior to disbursement of funds for sub-projects.

IV. IMPLEMENTATION ARRANGEMENTS

A. PROJECT MANAGEMENT

1. Role of LAAD

a. Review and Approval of Sub-Projects by LAAD-Caribe

The proposed expansion of LAAD-Caribe will allow LAAD to give substantial attention to project identification and development in the Eastern Caribbean. The Barbados office to be established will have principal responsibility for project analysis, but it is expected that significant assistance will be provided by LAAD's president and the head of LAAD-Caribe as well, especially during the first year.

As an operating policy, LAAD will review applications for sub-loans as soon as possible after they are 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.

Generally, LAAD-Caribe will follow the following sequence in its step-by-step analysis of a potential sub-project:

-- Review of initial questionnaire prepared by sponsors of the sub-project, including reference checks. Annex I, contains a sample questionnaire. This review will identify major issues and raise questions LAAD-Caribe may have regarding: clarification to certain items; additional financial analysis required; technical data needed; sub-project implementation schedule; marketing data; information as to 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.

-- 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.

-- On proposals subjected to intensive 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.

-- Following approval by the Board, LAAD-Caribe will request a disbursement from AID.

-- 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:

- Preparation and execution of loan or investment documents, including provisions of the AID loan as appropriate;
- Registration of loan or investment; and
- Actual disbursement.

-- Following initial disbursement, a project supervision program will be developed setting forth approximate dates for site visits by appropriate LAAD-Caribe personnel. This will provide for scheduled written reporting for maintaining detailed records of the progress of projects during their implementation and operating phases.

b. LAAD-Caribe Project Implementation

The operating procedures established under the previous LAAD-Caribe loan were found satisfactory and are detailed below:

LAAD-Caribe will indirectly participate in the management functions 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. 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 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.

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 will be included in the status progress reports prepared by LAAD-Caribe clients. For example, the numbers of jobs initially projected to be produced when fully operational would be compared with the number 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 sub-project 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 community in the Caribbean.

2. Role of AID

a. Project Management Responsibilities

The previous LAAD-Caribe loan was managed from AID/Washington by LAC/DR. A similar arrangement is envisioned under this program.

Consideration was also given to the Regional Development Office/Caribbean, especially in view of the fact that a major portion of the loan funds are to be channeled into the English speaking LDCs. A major drawback, however, is that RDO/C has a very active program with a reasonably large pipeline and no expectations of increased staff to assist with ongoing projects let alone new ones in the design stage or additional ones such as LAAD. A second drawback is that RDO/C does not have responsibilities nor substantial familiarity with agribusiness conditions in Haiti or the Dominican Republic (nor Jamaica and Guyana which could be included in the future) the two other countries eligible in this program.

On the other hand, LAC/DR has played a major role in the AID/LAAD cooperative efforts undertaken since first contacts were established in 1970 and possesses familiarity with all phases of the project. Furthermore, AID/W management permits effective and up-to-date control over project progress, as well as the ability to coordinate any implementation decisions or actions with appropriate Caribbean country desks and USAIDs as required. 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 could be conveniently scheduled.

AID Missions in countries where LAAD-Caribe investments are to be located would be requested to visit sub-project sites to assess sub-project status and ensure proper utilization of funds.

Thus, overall project management, control, and monitoring responsibilities would reside with the Office of Development Resources. Implementation responsibilities exercised by this Office would include:

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

b. Review and Approval of Sub-Projects

All LAAD-Caribe projects regardless of size or whether or not they are AID financed, will be submitted to LAC/DR with a copy to the

USAID field liaison Mission for information purposes. All projects will be reviewed by AID prior to disbursement. However, AID will approve only those sub-projects in which the proposed use of AID funds exceeds \$500,000 or in these instances where the sub-project is located in Trinidad and Tobago. The information included in this documentation 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 I)

c. Project Management Plan

Reports

- 1) LAAD-Caribe will submit a Quarterly Status Report to LAC/DR. 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.
- 2) Annual Audited Financial Statements, prepared by a CPA firm acceptable to AID, will also be required.
- 3) 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.

Two Million Dollars Review

These reviews will be joint AID/LAAD progress reviews after each \$2.0 million of loan funds has been committed. In effect, this procedure is a continuing condition precedent to disbursement. There will be a total of two 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).

d. Evaluation

The two million dollars review will become the focal point for periodic evaluations. Shortly after the loan agreement is signed with LAAD, interim disbursement targets will be agreed upon for AID and commercial bank funds. Disbursement projections have already been made and are contained within LAAD's financial projections.

The Logical Framework Matrix 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 the target group and other objectives will not be undertaken until sub-project proposals are operational. 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. The evaluation will collate and examine the data from these sources to determine achievement of project. Ultimately, the wide range of impacts on target group will be evaluated by a selective examination of various sub-projects two-two and one half years after they have become operational. This elapse of time will be required to allow sub-project growth and maturity as well as development of linkages to the producers and markets. Some sub-projects in fact may not reach maturity until three-five years after operations have begun. This is not to say the impact cannot be measured earlier; rather to point out that the full range of benefits may not be readily noticeable.

B. DISBURSEMENT PROCEDURES

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

Disbursements are made on the basis of and in the amount of individual sub-projects. For example, following review and approval of a sub-project LAAD will submit a voucher to AID requesting disbursement of the total amount of the sub-project. Upon receipt of the AID funds, LAAD then disburses to the sub-project borrower. (Approval in this instance means approval by LAAD's President, or LAAD's Board of Directors, depending on the nature and amount of the sub-project as discussed in the section on Project Management.)

It is expected that AID funds will be utilized for those sub-projects in which the rate of interest on the subloan is fixed and commercial bank funds utilized where the interest rate is floating. (See previous discussion of interest rates under Project Description, Geographical Focus.) This means that disbursements of AID funds cannot effectively be matched against the same amount of disbursements of commercial bank funds at any one point in time. This is because at any one point LAAD may have a greater number of fixed rate sub-projects approved than floating rate sub-projects. In order to assure, however, that AID loan funds are not drawn down substantially ahead of commercial bank funds, LAAD will have under analysis a sufficient number of fixed and floating rate sub-projects so as to ensure against potential disequilibrium. The proposed \$2 million reviews will monitor these funding flows. Also, LAAD will covenant to disburse AID and private bank borrowings on approximately a pari passu basis. Further, as a condition precedent to disbursements in excess of \$2 million and \$4 million respectively, LAAD will have to demonstrate that it has commitments from commercial banks in the amount of \$4 million and \$6 million respectively.

C. PROCUREMENT PROCEDURES

As LAAD is an intermediate credit institution, procurement policies will be in accordance with Handbook 1, Supplement B. The source and origin of U.S. dollar procurement will be in those countries included in Code 941 of the AID Geographic Code Book and the countries of the Caribbean which will participate in their program.

D. CONDITIONS, COVENANTS AND NEGOTIATING STATUS

The following conditions and covenants are recommended for inclusion in the loan agreement. The conditions and covenants are similar to those included in previous AID loan agreements with LAAD. Each of these agreements was satisfactorily negotiated without major difficulty and LAAD indicates that the conditions and covenants recommended for this project are acceptable.

Conditions Precedent to Initial Disbursement

1. a plan for the objective and comprehensive review of all investments and subloans proposed to be made by Borrower or Caribbean subsidiary of Borrower to assure that such proposed activities are financially and technically sound;
2. a plan for the evaluation of proposed sub-project activities by the Borrower or 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 Caribbean subsidiary of Borrower setting forth the eligibility criteria and procedures each will follow in authorizing and administering investments and subloans;

4. a statement by Borrower and Caribbean subsidiary of Borrower setting forth the standards and procedures each will follow in providing technical assistance to clients;

5. updated certified copies of the corporate charters and by-laws of Borrower and of Caribbean subsidiary of Borrower, duly authorized by the respective Board of Directors of each;

6. certified copies of the operating policies of Borrower and of Caribbean subsidiary of Borrower, which policies shall include but not necessarily be limited to:

(a) an administrative and technical staffing plan of Borrower and Caribbean subsidiary; and

(b) policies controlling the divestment of equity investments to be made in enterprises financed with funds made available under the Program; and

7. a plan for the periodic audit of subloans made by Borrower and by any subsidiary of Borrower.

8. Evidence that Borrower has opened and staffed an office in Bridgetown, Barbados as an expansion of the Caribbean subsidiary.

Conditions Precedent to Disbursements in Excess of \$2,000,000

Prior to disbursements in excess of \$2,000,000, Borrower will furnish to AID evidence that Borrower or Caribbean subsidiary of borrower has obtained loan borrowings from private banking sources totaling not less than \$4,000,000

Conditions Precedent to Disbursements in Excess of \$4,000,000

Prior to disbursements in excess of \$4,000,000, Borrower will furnish to AID evidence that Borrower or Caribbean subsidiary of borrower has obtained loan borrowings from private banking sources totaling not less than \$6,000,000

Covenants

A. Funds made available under the Program shall be utilized for financing activities only in the following countries ("Eligible Countries"):

1. Jamaica, Haiti, Dominican Republic and Guyana (Group 1).
2. Antigua, Belize, Dominica, Montserrat, St. Kitts-Nevis-Anguilla, St. Lucia, St. Vincent, Barbados and Trinidad and Tobago and such other islands as AID determines eligible (Group 2)

B. On a "best efforts" basis, Borrower will attempt to raise \$1.5 million in equity capital.

C. 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 subloans 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 sub-project or to make subloans to any subborrower in excess of the equivalent of five hundred thousand United States dollars (\$500,000);
3. make subloans with repayment terms of less than three (3) years;
4. make subloans to or equity investments in business or other activities in which any shareholder, officer or employee of Borrower has an equity interest or any interest through a licensing, royalty or distribution agreement;
5. make subloans from A.I.D. funds for working capital, except for financing costs of raw materials (inventory);
6. maintain a reserve for bad debts of less than three percent (4%) of its total subloan portfolio;
7. appoint as manager of Borrower's Caribbean subsidiary persons whose appointments have not been approved in advance by A.I.D.;
8. declare or pay dividends on either common or preferred shares from sources other than accrued earnings and after providing for reserves for bad debts;
9. incur any indebtedness which would enjoy a position superior to the obligation incurred under the A.I.D. Loan ;
10. amend or modify its corporate charter, by-laws or operating plans or undergo any type of corporate reorganization without prior approval of A.I.D.;
11. utilize less than \$4 million of the aggregate funds provided under the A.I.D. loan for eligible projects in the Group 2 countries or for projects impacting on Group 2 countries;
12. utilize any funds provided under this program in any particular eligible country unless and until Borrower provides or causes to be provided to A.I.D., in form and substance satisfactory to A.I.D., an opinion or opinions of counsel, that Borrower, or the Caribbean subsidiary of Borrower,

has compiled with all appropriate corporate and legal actions required under the laws of such particular eligible country in which they propose to do business.

D. Repayments of Principal from A.I.D.-funded subloans may be used only for those purposes for which A.I.D. loan funds were originally made available.

E. Borrower will not incur short or long term liabilities which cause the debt/equity ratio of Borrower to exceed five to one (5/1).

F. Borrower will submit a Quarterly Status Report to AID. This report will contain a breakdown of projects, showing types of industry, commitments and disbursements, terms and conditions of financing, uses of LAAD and AID funds, and other comments as appropriate.

G. Borrower will seek AID approval of any projects to be financed in Trinidad and Tobago in which AID funds are to be utilized.

LATIN AMERICAN
AGRIBUSINESS
DEVELOPMENT
CORPORATION S. A.

ANNEX A
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255 ALHAMBRA CIRCLE, SUITE 905, CORAL GABLES, FLORIDA 33134
TEL. (305) 445-1341 TELEX-815648 CABLE-LATDEV CGBL

July 16, 1980

Mr. Edward W. Coy
Acting Assistant Administrative
Bureau for Latin America
and the Caribbean
Agency for International Development
Department of State
Washington, D.C. 20523

Dear Mr. Coy:

As you know AID and LAAD have jointly financed two programs of agribusiness development in Central America and the Caribbean. Since the program started in 1972, LAAD has disbursed over \$40 million to 140 agribusiness projects in a dozen countries. These projects all meet criteria set down by AID and LAAD, benefiting primarily rural employment, market opportunities for small farmers and non-traditional exports. The vast majority of these projects has succeeded and has become a dynamic force in developing the rural economies of these countries.

Recently, local political and international money developments have complicated a never easy task of raising private funds from the international market for agribusiness development in Latin America and the Caribbean. Yet the need to support local agribusiness development has never been greater.

In response to this situation, I would propose that AID and LAAD jointly undertake a significant expansion of our program with emphasis initially on the Caribbean. Specifically I would request that AID provide a \$6,000,000 long term loan to LAAD to be used entirely in the Caribbean region. LAAD in turn, would raise no less than \$6,000,000 for agribusiness projects from the international money market. Part of these funds would be earmarked for the Caribbean. In recognition of AID's concern for the English speaking LDC's in the Caribbean, LAAD would endeavor to utilize \$4,000,000 of the expanded program in projects located in or impacting on these countries. Total project

Mr. Edward W. Coy
Agency for International Development

July 16, 1980
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funding from all sources, including reflows, during the initial drawdown period would come to an estimated \$18,000,000. Based on our past experience in the Caribbean, we would expect that total funding in these projects from all sources would come to about \$36,000,000 which is a significant investment in that part of the world.

As part of the program, we intend to hire a man full time to be resident in Barbados, to hire an additional man in our Santo Domingo office and to provide additional marketing services to export oriented projects.

This program would provide much needed financial and business development assistance to the hard pressed private agribusiness community in the Caribbean in a time of growing uncertainty. In proposing this program, we do so recognizing the difficulties inherent to carrying it out successfully. We have already identified some \$16,000,000 of agribusiness projects in the Caribbean, half of which are located in English speaking LDC's.

We look forward to carrying out this joint program.

Sincerely yours,



Robert L. Ross
President

RLR:t1

STATUTORY CHECKLIST

A. GENERAL CRITERIA FOR PROJECT

1. FY 79 App. Act Unnumbered; FAA Sec. 634A; Sec. 653(b); (a) Describe how authorizing and appropriations Committees of Senate and House have been or will be notified concerning the project; (b) is assistance within (Operational Year Budget) country or international organization allocation reported to Congress (or not more than \$1 million over that figure)?

The project is not in the 1980 CP; Congress will be notified.

2. FAA Sec. 611(a) (1). Prior to obligation in excess of \$100,000, will there be (a) engineering, financial, and other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost of the U.S. of the assistance?

Yes

3. FAA Sec. 611(a) (2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

Not applicable

4. FAA Sec. 611(b); FY 79 App. Act Sec. 101. If for water or water-related land resource construction, has project met the standards and criteria as per the Principles and Standards for Planning Water and Related Land Resources dated October 25, 1973?

5. FAA Sec. 611(e). If project is capital assistance (e.g., construction), and all U.S. assistance for it will exceed \$1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability effectively to maintain and utilize the project?

- 2 -

6. FAA Sec. 209. Is project susceptible of execution as part of regional or multilateral project? If so why is project not so executed? Information and conclusion whether assistance will encourage regional development programs.

Project is regional and will be executed on that basis.

7. FAA Sec. 601(a). Information and conclusions whether project will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.

Project, by stabilizing the markets for agricultural products and assisting rural entrepreneur, will contribute directly to improving technical efficiency of agribusiness and will directly contribute to fostering private initiative and competition, encouraging development and use of cooperatives, and increasing the flow of international trade through production for export. Larger numbers of small producers reduce opportunities for monopolistic practices.

8. FAA Sec. 601(b). Information and conclusion on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

Project engages U.S. agricultural and financial organizations in technical assistance and support mode; increased number of agribusinesses provides potential market for equipment; increased level of output for export provides foreign exchange earnings.

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

Not applicable.

10. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

Not applicable

11. FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? Yes

12. FY 79 App. Act Sec. 608. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity? No

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria.

a. FAA Sec. 102(b); 111; 113; 281a. Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries?

Project will directly stimulate labor-intensive production and investment in rural areas through credit programs for rural agribusiness enterprises and will assist the rural poor and small farmers to increase their incomes and employment by providing capital and technical and financial as well as marketing assistance to rural agribusiness enterprises. These benefit the poor by providing markets for traditional and non-traditional products, and thus, higher levels of income. Women are active as laborers and farmers and thus their increased participation in development is fostered. Project encourages regional cooperation by utilizing LAAD resources on regional basis and fostering regional technical interchange and consultations.

b. FAA Sec. 103, 103A, 104, 105, 106, 107. Is assistance being made available: (include only applicable paragraph which corresponds to source of funds used. If more than one fund source is used for project, include relevant paragraph for each fund source.)

(1) (103) for agriculture, rural development or nutrition; if so (a) extent to which activity is specifically designed to increase productivity and income of rural poor; (103A) if for agricultural research, full account shall be taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made: (b) extent to which assistance is used in coordination with programs carried out under Sec. 104 to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value, improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot of demonstration programs explicitly addressing the problem of malnutrition of poor and vulnerable people; and (c) extent to which activity increases national food security by improving food policies and management by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.

Assistance for regional agribusiness development and is targetted directly at improving productivity and income of rural landless and landed groups. Project focusses on labor-intensive processing-type enterprises which provide guaranteed markets for small-farmer crops. Project provides technical assistance to processors and farmers for increased production of higher quality crops and more efficient storage, processing and marketing. Strengthening agribusiness sector removes critical bottleneck to development of agriculture generally and thus increases national food security. Improved food storage and processing and marketing abilities reduce post harvest food losses and contribute to improved distribution.

(2) (104) for population planning under Sec. 104 (b) or health under Sec. 104(c); if so, a. extent to which activity emphasized low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems and other modes of community research.

(3) (105) for education, public administration, or human resources development; if so, extent to which activity strengthens non-formal education, makes formal education more relevant, especially for rural families and urban poor, or strengthens management capability of institutions enabling the poor to participate in development; and b. extent to which assistance provides advanced education and training of people in developing countries in such disciplines as are required for planning and implementation of public and private development activities.

(4) (106) for technical assistance, energy, research, reconstruction, and selected development problems; if so, extent activity is: (i) (a) concerned with data collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and (b) facilitative of geological and geophysical survey work to locate potential oil, natural gas, and coal reserves and to encourage exploration for potential oil, natural gas, and coal reserves.

(ii) technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations;

(iii) research into, and evaluation of, economic development processes and techniques;

(iv) reconstruction after natural or manmade disaster;

(v) for special development problems, and to enable proper utilization of earlier U.S. infrastructure, etc., assistance;

(vi) for programs of urban development, especially small labor-intensive enterprises, marketing systems, and financial or other institutions to help urban poor participate in economic and social development.

c. (107) is appropriate effort placed on use of appropriate technology? (relatively smaller, cost-saving, labor using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor.)

Yes. LAAD advises in the case of labor intensive technology as a part of investing in small and medium-sized agribusinesses.

d. FAA Sec. 110(a). Will the recipient country provide at least 25% of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or has the latter cost-sharing requirement been waived for a "relatively least developed" country)?

As a regional project Section 110(a) does not apply.

e. FAA Sec. 110(b) will grant capital assistance be disbursed for project over more than 3 years? If so, has justification satisfactory to Congress been made, and efforts for other financing, or is the recipient country "relatively least developed"?

No

f. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's

Rural enterprise development is a response to the needs and desires of the rural poor and permits the utilization of the Caribbean region's

intellectual resources to encourage institutional development; and supports civil education and training in skills required for effective participation in governmental processes essential to self-government.

intellectual resources in the form of innovation and application of agricultural technologies. Technical assistance to successful subprojects increases self-confidence and independence.

g. FAA Sec. 122(b). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

Yes

2. Development Assistance Project Criteria (Loans Only)

a. FAA Sec. 122(b). Information and conclusion on capacity of the country to repay the loan, at a reasonable rate of interest.

LAAD is repaying all earlier AID loans.

b. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan?

The project will have a negligible effect on the U.S. economy.

3. Project Criteria Solely for Economic Support Fund

a. FAA Sec. 531(a). Will this assistance promote economic or political stability? To the extent possible, does it reflect the policy directions of Section 102?

Not applicable

b. FAA Sec. 531(c). Will assistance under this chapter be used for military, or paramilitary activities?

Not applicable

A. Procurement

1. FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed?

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

2. FAA Sec. 604(a). Will all procurement be from the U.S. except as otherwise determined by the President or under delegation from him?

Yes

3. FAA Sec. 604(d). If the cooperating country discriminates against U.S. marine insurance companies, will commodities be insured in the United States against marine risk with a company or companies authorized to do a marine insurance business in the U.S.

Not applicable.

4. FAA Sec. 604(e). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity?

Not applicable.

5. FAA Sec. 603. Compliance with requirement in Section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S.-flag commercial vessels to the extent that such vessels are available at fair and reasonable rates.

Yes

6. FAA Sec. 608(a). Will U.S. Government excess personal property be utilized wherever practicable in lieu of the procurement of new items?

Yes

7. FAA Sec. 621. If technical assistance is financed, to the fullest extent practicable, will such assistance, goods and professional and other services from private enterprise, be furnished on a contract basis? If the facilities of other Federal agencies will be utilized, are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

Yes

8. International Air Transport. Fair Competitive Practices Act, 1974. If air transportation of persons or property is financed on grant basis, will provision be made that U.S.-flag carriers will be utilized to the extent such service is available?

Not applicable.

9. FY 79 App. Act, Sec. 105; Does the contract for procurement contain a provision authorizing the termination of such contract for the convenience of the United States?

Not applicable.

B. Construction

1. FAA Sec. 601(d). If a capital (e.g., construction) project, are engineering and professional services of U.S. firms and their affiliates to be used to the maximum extent consistent with the national interests?

Not applicable.

2. FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable?

Yes

3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed \$100 million.

Not applicable.

C. Other Restrictions

1. FAA Sec. 122(b). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter? Yes

2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Controller General have audit rights? Yes

3. FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries? Yes

4. FAA Sec. 636(i). Is financing not permitted to be used, without waiver, for purchase, sale, long term lease exchange or guaranty of motor vehicles manufactured outside the U.S. Yes

5. Will arrangements preclude se of financing:

a. FAA Sec. 104(f). To pay for performance of abortions as a method of family planning or to, motivate or coerce persons to practice abortions; to pay for performance of involuntary sterilization as a method of family planning, or to coerce or provide financial incentive to any person to undergo sterilization? Yes

b. FAA Sec. 620(g). To compensate owners for expropriated nationalized property? Yes

- c. FAA Sec. 660. To provide training or advice or provide any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? Yes
- d. FAA Sec. 662. For CIA activities? Yes
- e. FY 79 App. Act Sec. 104; To pay pensions, etc., for military personnel? Yes
- f. FY 79 App Act Sec. 106; To pay U.N. assessments? Yes
- g. FY 79 App. Act Sec. 107; To carry out provisions of FAA section 209(d) (Transfer of FAA funds to multilateral organizations for lending.) Yes
- h. FY 79 App. Act Sec. 112; To finance the export of nuclear equipment, fuel, or technology or to train foreign nationals in nuclear fields? Yes
- i. FY 79 App. Act Sec. 601; To be used for publicity or propaganda purposes within U.S. not authorized by Congress? Yes

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INFO AALA-#1 LACO-#1 LADP-#3 PPCE-#1 PPPB-#2 GC-#1 PPEA-#1
GCLA-#1 GCFL-#1 AADS-#1 DSAG-#2 CHB-#1 AGRI-#1 LACA-#3
P DPR-#1 /#24 A4

INFO OCT-#8 /#35 R

DRAFTED BY LAC/DR: JPBITNER: GJW
APPROVED BY AAA/LAC: EUCOY
LAC/DR: LYARMSTRONG (DRAFT)
GC/LA: GWINTER (DRAFT)
LAC/DR: CLEONARD
LAC/DR: ILEVY
LAC/DR: BGOODWIN (DRAFT)
A / R: M ROWN
- C/DP: GHILL (DRAFT)
/ P: J ANGYS
LAC/CAR: ENADEAU (DRAFT)
PPC/PDPR: ELIJEWSKI (DRAFT)
DS/AGR: WROGERS (DRAFT)
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FM SECSTATE WASHDC
TO AMEMBASSY BRIDGETOWN
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AMEMBASSY SANTO DOMINGO
AMEMBASSY GEORGETOWN

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E.O. 12865: N/A

TAGS:

SUBJECT: NEW AID LOAN TO LAAD (598-0614)

1. ON JUNE 11 THE DAEC REVIEWED A PID FOR A PROPOSED 12 MILLION DOLLARS AGRIBUSINESS EXPANSION LOAN TO LATIN AMERICA AGRIBUSINESS DEVELOPMENT CORP. FOR CENTRAL AMERICA AND THE CARIBBEAN. THE THRUST OF THE PROJECT IS TO EXPAND PRIVATE AGRIBUSINESS INVESTMENTS IN ORDER TO STIMULATE AGRICULTURAL GROWTH AND CREATE EMPLOYMENT OPPORTUNITIES. LAAD WOULD USE PROCEEDS FROM THE LOAN TO FINANCE SUB-PROJECTS USING CRITERIA SIMILAR TO THOSE UTILIZED UNDER THE PREVIOUS LAAD-CARIBE LOAN (538-T-#05). A SPECIAL FEATURE OF PROPOSED LOAN WOULD BE CO-FINANCING MECHANISM WHEREBY LAAD WOULD UNDERTAKE TO SECURE COMMERCIAL BANK BORROWINGS (ON AT LEAST A 1 TO 1 BASIS) TO MATCH THE FUNDS PROVIDED BY AN AID LOAN. THIS WOULD AT LEAST DOUBLE THE AMOUNT OF RESOURCES AVAILABLE FOR SUB-PROJECT FINANCING. (SECURING THE COMMERCIAL BANK FUNDS WOULD PROBABLY BE A CONDITION TO DISBURSEMENT OF AID FUNDS, WHICH IN TURN WOULD BE DISBURSED IN TRanches TO MATCH COMMERCIAL BANK DISBURSEMENTS.) LAAD WOULD ALSO REINVEST A PORTION OF THEIR OWN RESOURCES (FROM PROFITS AND REPAYMENTS ON PREVIOUS SUBLOANS) INTO NEW SUB-PROJECT

INVESTMENTS. FINALLY, LAAD WOULD CONSIDER ESTABLISHING AN OFFICE IN THE EASTERN CARIBBEAN IN ORDER TO PROVIDE INCREASED FOCUS TO THAT PART OF THE REGION.

2. ALTHOUGH AT PRESENT PROJECT IS NOT INCLUDED IN LAC'S

OVB FOR FY 88, THERE IS SOME CHANCE FOR FUNDING AT A REDUCED, PID-APPROVED LEVEL OF 6 MILLION DOLLARS FOR EXCLUSIVE USE IN THE CARIBBEAN. LOAN TERMS ARE LIKELY TO BE 20 YEARS, 5 YEARS GRACE WITH INTEREST AT 4 PERCENT.

3. COPIES OF PID AND ISSUES PAPER POUCHED TO FINANCE OFFICE CHIEFS. HIGHLIGHTS AND CONCLUSIONS FROM THE DAEC REVIEW FOLLOW:

-- A. RATIONALE: DISCUSSION CENTERED ON JUSTIFICATION FOR A FOURTH LOAN TO LAAD AND PROJECT PURPOSES, WHICH WERE STATED IN PID AS (1) TO FACILITATE A STRENGTHENING OF LAAD, BOTH INSTITUTIONALLY AND FINANCIALLY AND (2) TO PROMOTE, DEVELOP AND EXPAND EMPLOYMENT OPPORTUNITIES THROUGH PRIVATE AGRIBUSINESS SYSTEMS. CONCLUSIONS REACHED WERE THAT THE PROJECT SHOULD FOCUS ON EXPANDING AGRIBUSINESSES IN THE CARIBBEAN, THROUGH PRIVATE SECTOR INVESTMENT IN ORDER TO GENERATE EMPLOYMENT. FURTHER, IN ENGLISH SPEAKING LDC COUNTRIES ESPECIALLY, A STRONG RATIONALE EXISTS FOR THIS PROJECT IN THAT AGRIBUSINESS COULD PLAY A MAJOR ROLE IN BUILDING ECONOMIES AND ESTABLISHING, OVER THE LONG TERM, A PRODUCTIVE BASE FOR EMPLOYMENT, EXPORT EARNINGS AND DOMESTIC FOOD PRODUCTION. TOWARD THIS OBJECTIVE IT WAS AGREED THAT ONE THIRD (AN ESTIMATED 4 MILLION DOLLARS) OF THE AID AND COMMERCIAL BANK LOANS (TOTALING 12 MILLION DOLLARS) WOULD BE EARMARKED FOR THE LDCS. (FINAL EARMARKING TO DEPEND IN PART ON DEMAND ANALYSIS, SEE PARA 3H.)

THE DAEC ALSO WAS CONCERNED WITH WHETHER ANOTHER LAAD LOAN WAS AN EFFECTIVE MEANS OF ACHIEVING PERMANENT PRODUCTIVE EMPLOYMENT IN THE CARIBBEAN. IN PREPARING COMMENTS SOLICITED IN PARA. 4, BELOW AND IN VIEW OF RECENT OBSERVATIONS OF THE YORK TEAM, MISSIONS SHOULD PAY SPECIAL ATTENTION TO THE ISSUE OF ALTERNATIVE INTERVENTIONS WHICH MIGHT ACHIEVE THE EMPLOYMENT OBJECTIVE AND THE RELATIVE ECONOMIC AND INSTITUTIONAL COSTS/BENEFITS OF SUCH ALTERNATIVES. IN SHORT, WE WOULD APPRECIATE YOUR OPINIONS AND ANALYSIS OF WHETHER THIS IS AN EFFECTIVE USE OF SCARCE CONCESSIONAL FINANCING AVAILABLE TO AID OR WOULD OTHER OPTIONS, SUCH AS FINANCING DRA BACK INDUSTRIES, MORE EFFICIENTLY ACHIEVE THE PRODUCTIVE EMPLOYMENT OBJECTIVE.

-- B. FINANCIAL STRATEGY: THE FINANCIAL ANALYSIS TO BE CONDUCTED AS PART OF THE INTENSIVE REVIEW WILL SPECIFICALLY CONSIDER QUESTION OF LAAD'S FINANCIAL HEALTH SHOULD BORROWERS DEFAULT OR BECOME DELIQUENT ON LOANS IN EL SALVADOR AND NICARAGUA: WHETHER LAAD CAN LEVERAGE ADDITIONAL RESOURCES FROM COMMERCIAL BANKS, BEYOND THE 1:0-1 MATCHING WITH AID FUNDS CURRENTLY PROPOSED; WHETHER LAAD CAN RAISE ADDITIONAL CAPITAL TO EXPAND ITS EQUITY BASE (THAT IS BY SELLING ADDITIONAL SHARES OF COMMON OR PREFERRED STOCK); AND LAAD'S PROJECTED PROFITABILITY AND CASH FLOW CONSIDERING THE ISSUES MENTIONED ABOVE. PP WILL ALSO ADDRESS ISSUE OF WHETHER AID SHOULD ENJOY A SUPERIOR POSITION VIS-A-VIS OTHER LOANS LAAD MAY SECURE FROM PRIVATE BANKS.

-- C. SUB-PROJECT LENDING CRITERIA: THE INTENSIVE REVIEW SHOULD CONSIDER WHETHER THE SUB-PROJECT LENDING CRITERIA APPLIED IN THE LAAD-CARIBE LOAN IS APPROPRIATE FOR APPLICATION IN THE PROPOSED PROJECT AND IF OTHER CRITERIA MIGHT APPLIED. FOR EXAMPLE, INCREASED EMPHASIS ON INTRA-REGIONAL TRADE, EXPORTS AND FOREIGN EXCHANGE EARNINGS MIGHT BE APPROPRIATE FOR THE MINI-STATES. POSSIBLE TRADEOFFS BETWEEN DOMESTIC FOOD PRODUCTION AND EMPLOYMENT MIGHT ARISE AND WOULD HAVE TO BE WEIGHED ON A CASE-BY-CASE BASIS.

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— D. FOLLOW ON SUB PROJECT LENDING: THE INTENSIVE REVIEW SHOULD CONSIDER WHETHER IT WOULD BE APPROPRIATE TO LIMIT UTILIZATION OF AID FUNDS IN THE PROPOSED PROJECT TO NEW SUB PROJECTS (WHERE NO PREVIOUS LAAD LENDING HAS OCCURRED) AND TO SUB PROJECTS WHERE PAST LENDING MAY HAVE OCCURRED, BUT IN WHICH EXPANSION OF EMPLOYMENT COULD BE GENERATED BY A FOLLOW ON LOAN. THE RATIONALE HERE IS TO TRY TO AVOID SUB PROJECT DEPENDENCY ON LOWER COST LENDING (POSSIBLY BELOW MARKET RATES) AVAILABLE FROM LAAD.

— E. OPERATING RESTRICTIONS ON LAAD LENDING IN THE MINI STATES: A QUESTION AROSE AS TO WHETHER LAAD WOULD ENCOUNTER ANY RESTRICTIONS WHICH MIGHT ENCUMBER THEIR EXPANSION INTO THE MINI-STATES. FOR EXAMPLE, DO THE MINI STATES HAVE ANY PROHIBITIONS (LEGAL OR PRACTICAL) AGAINST FOREIGN-OWNED CORPORATIONS CONDUCTING LENDING AND ENTERPRISE DEVELOPMENT OPERATIONS? ARE THE GOVERNMENT OWNED DFC'S PROTECTED FROM COMPETITION WITH A FIRM SUCH AS LAAD? ARE THERE PRACTICAL CONSIDERATIONS SUCH AS OBLIGATORY DFC PARTICIPATION IN A SUB PROJECT WHICH HAVE TO BE SCRUTINIZED? REQUEST RDO/C COMMENTS ON THESE QUESTIONS.

— F. COLLABORATION WITH CDB: LAAD MAY BE ABLE TO ASSIST CDB IN SUB PROJECT IDENTIFICATION/ANALYSIS AS A WAY OF UTILIZING CDB RESOURCES ALREADY AVAILABLE FOR AGRIBUSINESS LENDING. IN THIS REGARD, LAAD SHOULD INVESTIGATE WHETHER SUCH COLLABORATION WOULD BE MUTUALLY BENEFICIAL. HOWEVER, THE PROJECT WILL NOT FINANCE SUCH A LAAD INITIATIVE.

— G. MARKETING SUBSIDIARY: THE INTENSIVE REVIEW SHOULD CONSIDER WHETHER LAAD MIGHT BE ABLE TO UTILIZE WORLD TRADE INSTITUTE'S ESTABLISHED CAPABILITIES IN EXPORT MARKETING IN LIEU OF ESTABLISHING AN IN-HOUSE CAPABILITY. WTI RECEIVES CENTRAL AID FUNDING FOR PROVIDING ASSISTANCE TO LDCS ON TRADE AND EXPORT MATTERS. THE INTENSIVE REVIEW SHOULD ASSESS THE COMPLEMENTARITY OR OVERLAP, IF ANY, BETWEEN WTI'S PROGRAMS AND LAAD'S PROPOSED MARKETING SUBSIDIARY. ULTIMATELY, HOWEVER, THIS DECISION MAY HAVE TO BE CONSIDERED IN LIGHT OF LAAD'S BROADER CORPORATE OBJECTIVES AND WHETHER LAAD BELIEVES IT IS IN THEIR LONG RUN INTEREST TO ESTABLISH THE CAPABILITY.

— H. DEMAND FOR CREDIT: PP SHOULD PROVIDE AN UPDATED ANALYSIS OF DEMAND FOR FUNDS IN ENTIRE CARIBBEAN, WITH FOCUS ON LDCS. FURTHER, THERE IS SOME POSSIBILITY THAT THE PROPOSED LOAN WOULD COMPETE FOR SUB PROJECTS WITH THE INTEGRATED AGRICULTURAL DEVELOPMENT (530-T-006) AND THE REGIONAL AGRIBUSINESS DEVELOPMENT (530-T-007) LOANS. SPECIFICALLY REQUEST RDO/C VIEWS ON POTENTIAL COMPETITION AS WELL AS POTENTIAL FOR COMPLEMENTARITY THROUGH MEASURES SUCH AS DIFFERENCES IN INTEREST RATES AND LOAN TERMS AND PROVISION OF MANAGEMENT OF TECHNICAL ASSISTANCE.

4. INTENSIVE REVIEW AND PP PREPARATION TO TAKE PLACE OVER NEXT 4-6 WEEKS. WOULD APPRECIATE FIELD REACTION TO PID AND ANY SUGGESTIONS YOU MAY HAVE REGARDING PROJECT DESIGN. ADDRESS COMMENTS TO PETER BITTNER, LAC/DR. CHRISTOPHER

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CERTIFICATION PURSUANT TO SECTION 611(e) OF THE
FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED

I, Carl H. Leonard, Assistant Director for Development Finance in the Bureau for Latin America and the Caribbean of the Agency for International Development, having taken into account among other factors the maintenance and utilization of projects by the Latin America Agribusiness Development Corporation, S.A. previously financed or assisted by the United States, do hereby certify that in my judgement the Latin America Agribusiness Development Corporation, S.A. has both the financial and human resources capability to effectively maintain and utilize the capital assistance project: Agribusiness Expansion.



CARL H. LEONARD
Assistant Director
for Development Finance
Bureau for Latin America
and the Caribbean

DRAFT LOAN AUTHORIZATION

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

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 delegation 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 for the promotion, development and expansion of agribusiness enterprises with emphasis on activities involving food production in selected countries of the Caribbean Basin. 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 per cent (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. Conditions Precedent to First Disbursement

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 sub-loans proposed to be made by Borrower or Caribbean subsidiary of Borrower to assure that such proposed activities are financially and technically sound;
2. a plan for the evaluation of proposed sub-project activities by the Borrower or Caribbean subsidiary of Borrower under the Program to assure that such proposed activities will produce economic 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 Caribbean subsidiary of Borrower setting forth the eligibility criteria and procedures each will follow in authorizing and administering investments and sub-loans;
4. a statement by Borrower and Caribbean subsidiary of Borrower setting forth the standards and procedures each will follow in providing technical assistance to clients;
5. updated certified copies of the corporate charters and by-laws of Borrower and of Caribbean subsidiary of Borrower, duly authorized by the respective Board of Directors of each;
6. evidence that Borrower has opened and staffed an office in Barbados to support Borrower's Caribbean subsidiary;

7. certified copies of the operating policies of Borrower and of Caribbean subsidiary of Borrower, which policies shall include but not necessarily be limited to:

- (a) an administrative and technical staffing plan of Borrower and Caribbean subsidiary; and
- (b) policies controlling the divestment of equity investments to be made in enterprises financed with funds made available under the Program; and

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

B. Conditions Precedent to Disbursements in Excess of \$2,000,000

Prior to disbursements in excess of \$2,000,000, Borrower will furnish to AID evidence that Borrower or Caribbean subsidiary of borrower has obtained loan commitments from private banking sources totaling not less than \$4,000,000.

C. Conditions Precedent to Disbursements in Excess of \$4,000,000

Prior to disbursements in excess of \$4,000,000, Borrower will furnish to AID evidence that Borrower or Caribbean subsidiary of borrower has obtained loan commitments from private banking sources totaling not less than \$6,000,000.

V. Covenants

A. Funds made available under the Program shall be utilized for financing activities only in the following countries ("Eligible Countries"):

1. Jamaica, Haiti, Dominican Republic and Guyana (Group One)

2. Antigua, Belize,
Dominica, Montserrat, St. Kitts-Nevis-Anguilla, St. Lucia
St. Vincent, Barbados and
Trinidad and Tobago (Group Two)

B. On a "best efforts" basis, Borrower will attempt to raise \$1.5 million in equity capital.

- C. 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 sub-project or to make sub-loans to any subborrower in excess of the equivalent of five hundred thousand United States dollars (\$500,000);
 3. make sub-loans with repayment terms of less than three (3) years;
 4. make sub-loans to or equity investments in business or other activities in which any shareholder, officer or employee of Borrower to the Caribbean subsidiary;
 5. make sub-loans from A.I.D. funds for working capital, except for financing costs of raw materials (inventory);
 6. maintain a reserve for bad debts of less than three percent (3%) of its total sub-loan portfolio;
 7. appoint as manager of Borrower's Caribbean subsidiary persons whose appointments have not been approved in advance by A.I.D.;
 8. declare or pay dividends on either common or preferred shares from sources other than accrued earnings and after providing for reserves for bad debts;
 9. incur any indebtedness which would enjoy a position superior to the obligation incurred under the A.I.D. Loan;
 10. without prior approval from A.I.D. permit A.I.D. funds to be utilized to finance any sub-project located in Trinidad and Tobago.
 11. amend or modify its corporate charter, by-laws or operating plans or undergo any type of corporate reorganization without prior approval of A.I.D.;
 12. utilize less than \$4 million of the aggregate funds provided under the A.I.D. loan for eligible projects in the Group 2 countries or for projects impacting on Group 2 countries;

13. utilize any funds provided under this program in any particular eligible country unless and until Borrower provides or causes to be provided to A.I.D., in form and substance satisfactory to A.I.D., an opinion or opinions of counsel, that Borrower, or the Caribbean subsidiary of Borrower, has complied with all appropriate corporate and legal actions required under the laws of such particular eligible country in which they propose to do business.
- D. Repayments of Principal from A.I.D.-funded sub-loans may be used only for those purposes for which A.I.D. loan funds were originally made available.
 - E. Borrower will not incur short or long-term liabilities which cause the debt-equity ratio of Borrower to exceed five to one (5/1).
 - F. Borrower will submit a Quarterly Status Report to A.I.D. This report will contain a breakdown of projects, showing type of industry, commitments and disbursements, terms and conditions of financing, uses of LAAD and A.I.D. funds, and other comments as appropriate.
 - G. Borrower will seek A.I.D. approval of any projects to be financed in Trinidad and Tobago in which A.I.D. funds are to be utilized.

LOGICAL FRAMEWORK

<u>Goal</u>	<u>OVI</u>	<u>Means of Notification</u>	<u>Assumption</u>
To improve the standard of living of the Caribbean poor.	1. Health improvements noted due to increased income and consumption of more nutritional products.	Surveys	Increased incomes will be spent on more nutritional food
<u>Sub-Goal</u>	<u>OVI</u>		
To stimulate economic and agricultural growth and create employment.	1. Increased number of farmers selling produce to processors. 2. Increased income to beneficiary groups. 3. Increased direct and indirect employment. 4. Increased production and productivity due to new land in production.	LAAD reports. Surveys of beneficiaries.	Favorable investment climate continues. Favorable exchange is available for sub-loan repayments. Small farmers willing to produce for the sub-projects.
<u>Purpose:</u>	<u>EOPS</u>		
To initiate and expand private agribusiness investments in the Caribbean.	1. At least 44 sub-projects financed by LAAD in variety of agribusiness-related endeavors. 2. LAAD strengthened institutionally by additional staff and new office in Barbados. 3. \$6 million in private bank borrowings attracted to agribusiness sub-projects. (\$2M for Caribbean) 4. \$15.3 million in equity or loans invested by owners or local banks in agribusiness sub-projects.	LAAD reports. Sub-project evaluation.	Private banking system lends monies to LAAD and to sub-project sponsors.
<u>Outputs</u>			
1. Sub-project identification, promotion and development. 2. Technical assistance provided to sub-projects.	1. LAAD sub-projects financed. 2. LAAD staff or sub-contractors provide assistance.		
<u>Inputs</u>	<u>OVI</u>		
AID loan of \$6 million LAAD reflows of \$7.3 million Private bank borrowings of \$6 million. (\$2M for Caribbean)	Disbursement of funds over four year period.	Disbursement records.	Funds available on timely basis

SUB-PROJECT DEMAND

<u>Sponsor</u>	<u>Industry</u>	<u>Amount LAAD Financing</u>
<u>BARBADOS</u>		
Wimcal Ltd. Wimcal Ltd.	Fresh vegetables) Cold storage)	\$ 300,000
National Hatcheries Ltd.	Baby chicks	165,000
Barbados Hatchers Ltd. Barbados Hatchers Ltd.	Broilers) Feed mill)	250,000
Tillage Services Ltd.	Agricultural services	50,000
Cane Feedlots Ltd.	Cattle	100,000
General Trades Ltd.	Cold storage	50,000
Hy-Gro Gardens Ltd.	Vegetables	200,000
	TOTAL	<u>1,115,000</u>
<u>BELIZE</u>		
Belize Oils and Fats Ltd.	Edible vegetable oil	500,000
Joaquin Palomo	Cattle	500,000
Belize Agricultural Services Ltd.	Farm equipment	150,000
Cool Shade Farm, Ltd.	Cattle	250,000
McRae San Antonio Farm	Dairy	250,000
Big Falls Ranch	Cattle	750,000
Belize Beef Corporation	Slaughterhouse	200,000
Big Falls Ranch	Rice	750,000
Caribbean Investments	Cacao	500,000
Northern Fisheries Coop.	Shell fishing	300,000
	TOTAL	<u>4,150,000</u>

<u>Sponsor</u>	<u>Industry</u>	<u>Amount LAAD Financing</u>
<u>DOMINICA</u>		
P.W. Ballot & Co. Ltd.	Fruit products	200,000
	TOTAL	<u>\$ 200,000</u>
<u>DOMINICAN REPUBLIC</u>		
Transportes Maritimos Antillanos, S.A.	Shipping	150,000
Fertilizantes Quimicos S.A.	Fertilizer	250,000
Southland Dominicana	Frozen foods	800,000
Maderas del Caribe S.A.	Wood products	500,000
C.A. de Explotaciones Industriales	Gasohol	1,000,000
La Bonita S.A.	Tropical fruit juice cannery	600,000
Industrias Internacionales de Alimentos S.A.	Mushroom cannery	600,000
Confrut S.A.	Candy	200,000
Industrias Banilejas S.A.	Sesame seed	500,000
Grupo Morales	Potato processing	300,000
Sociedad Industrial Dominicana	Vegetable oils	700,000
Granja Mora S.A.	Broilers	400,000
	TOTAL	<u>\$6,000,000</u>
<u>GRENADA</u>		
L.H. Purcell	Spice and cacao processing	100,000
	TOTAL	<u>\$ 100,000</u>

<u>Sponsor</u>	<u>Industry</u>	<u>Amount LAAD Financing</u>
<u>HAITI</u>		
Denis & Denis	Shipping	\$1,000,000
Fertilizantes Dominicanos S.A.	Fertilizer plant	250,000
Econo-New S.A.	Corn meal	350,000
Garnier et Cia.	Fresh vegetables	210,000
Au Boeuf Couronne	Meat processing	200,000
Technico Engineering Co. S.A.	Sugar cane trailers	200,000
	TOTAL	<u>\$2,210,000</u>
<u>MONSERRAT</u>		
The Produce Chemists	Pepper sauce	80,000
	TOTAL	<u>\$ 80,000</u>
<u>ST. LUCIA</u>		
Khoray St. Lucia Lfd.	Broilers	150,000
Agricultural Development Ltd.	Vegetables	150,000
C.M.L. Industries	Inedible oils	200,000
Agro-Industries Ltd	Canned fruits and vegetables	300,000
Dennergy Estates Ltd.	Anthuriums	400,000
Windban	Fertilizer & crop diversification	1,000,000
	TOTAL	<u>\$2,200,000</u>
<u>ST. VINCENT</u>		
Amos Vale Oil Industries (1979) Ltd.	Coconut oil processing	200,000
	TOTAL	<u>\$ 200,000</u>

<u>Sponsor</u>	<u>Industry</u>	<u>Amount LAAD Financing</u>
<u>TRINIDAD</u>		
To be identified	Cold storage warehouse	\$ 250,000
		<hr/>
	TOTAL	\$ 250,000
	TOTAL CARIBBEAN	\$16,505,000

LAAD CONSOLIDATED BALANCE SHEET
AS OF OCTOBER 31
(US\$ '000)

<u>A S S E T S</u>	<u>Actual</u> <u>6/30/80</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
<u>Current Assets:</u>						
Cash	44	80	100	100	100	100
Time Deposits	850	900	1,200	1,200	1,200	1,200
Long Term Loans (Current Portion)	7,382	8,890	9,000	9,400	10,000	10,600
Interest & Other Receivables	<u>1,000</u>	<u>1,110</u>	<u>1,150</u>	<u>1,250</u>	<u>1,350</u>	<u>1,450</u>
	<u>9,276</u>	<u>10,980</u>	<u>11,450</u>	<u>11,950</u>	<u>12,650</u>	<u>13,350</u>
<u>Long Term Investments:</u>						
Equity in LAAD Marketing Equity Investment in Other Companies	100	100	100	100	100	100
Agribusiness Loans	<u>1,022</u>	<u>1,150</u>	<u>1,350</u>	<u>1,550</u>	<u>1,750</u>	<u>1,950</u>
	<u>20,558</u> ^{1/}	<u>26,900</u>	<u>32,200</u>	<u>37,400</u>	<u>40,000</u>	<u>43,000</u>
	<u>21,680</u>	<u>28,150</u>	<u>33,650</u>	<u>39,050</u>	<u>41,850</u>	<u>45,050</u>
<u>Other Assets:</u>						
Organization Expense(Net)	10	10	10	10	10	10
Furniture and Fixtures(Net)	30	30	30	30	30	30
Other	<u>106</u>	<u>80</u>	<u>160</u>	<u>160</u>	<u>160</u>	<u>160</u>
	<u>146</u>	<u>120</u>	<u>200</u>	<u>200</u>	<u>200</u>	<u>200</u>
TOTAL ASSETS	<u>31,100</u>	<u>39,250</u>	<u>45,300</u>	<u>51,200</u>	<u>54,700</u>	<u>58,600</u>
<u>L I A B I L I T I E S</u>						
<u>Current Liabilities:</u>						
Accrued Interest	357	330	500	600	700	800
Short Term Loans	2,903	2,380	2,300	3,400	3,090	3,800
Long Term Debt (Current Portion)	-	1,200	1,900	2,800	3,700	4,300
AID (Current Portion)	-	950	1,000	1,100	1,100	1,150
Other	<u>113</u>	<u>230</u>	<u>250</u>	<u>250</u>	<u>250</u>	<u>250</u>
	<u>3,373</u>	<u>5,090</u>	<u>5,950</u>	<u>8,250</u>	<u>8,840</u>	<u>10,300</u>
<u>Long Term Liabilities:</u>						
Bank & Private Borrowings	3,000	7,500	9,600	10,700	12,000	13,700
AID (Other)	<u>15,591</u>	<u>15,350</u>	<u>16,350</u>	<u>17,250</u>	<u>17,150</u>	<u>16,000</u>
	<u>18,746</u>	<u>22,850</u>	<u>25,950</u>	<u>27,950</u>	<u>29,150</u>	<u>29,700</u>
<u>Reserve:</u>		<u>2,240</u>	<u>3,040</u>	<u>3,840</u>	<u>4,640</u>	<u>5,440</u>
<u>Stockholders Equity:</u>						
<u>Paid-In Capital:</u>						
--Common Stock	3,200	3,400	3,600	3,600	3,600	3,600
--Preferred Shares	2,170	2,370	2,570	2,570	2,570	2,570
--Surplus	39	190	360	360	360	360
--Retained Earnings	<u>2,291</u>	<u>3,110</u>	<u>3,830</u>	<u>4,630</u>	<u>5,540</u>	<u>6,630</u>
Total Shareholders Equity	<u>7,700</u>	<u>9,070</u>	<u>10,360</u>	<u>11,160</u>	<u>12,070</u>	<u>13,160</u>
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	<u>31,100</u>	<u>39,250</u>	<u>45,200</u>	<u>51,200</u>	<u>54,700</u>	<u>58,600</u>

^{1/} Note: Agribusiness loans have been reduced by \$1,393,000 in reserves for losses.

LAAD CONSOLIDATED CASH FLOW
as of October 31
(US\$'000)

<u>INTERNAL FUNDING:</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
Gross Income	3,970	4,410	4,760	5,180	5,680
Time Deposit	300	Ø	Ø	Ø	Ø
Loan Amortization	7,240	8,890	9,000	9,400	10,000
Equity Divestiture	200	200	200	200	200
	<u>11,710</u>	<u>13,500</u>	<u>13,960</u>	<u>14,780</u>	<u>15,880</u>
 <u>CURRENT OBLIGATIONS:</u>					
Principal Payments of Short Term Line of Credit	2,300	2,380	2,300	3,400	3,090
Principal Payments of Bank Term Loans	300	1,200	1,900	2,900	3,700
Principal Payments of AID Term Loans # 1 and # 2	580	700	700	700	700
Principal Payments of AID Term Loan # 3	Ø	200	300	400	400
Interest Payments to Banks	1,090	1,150	1,250	1,400	1,600
Interest Payments to AID	540	550	590	610	590
Operating Expenses	830	950	1,050	1,160	1,300
	<u>5,640</u>	<u>7,130</u>	<u>8,090</u>	<u>10,570</u>	<u>11,380</u>
Cash Surplus (Deficit) before Dividends	<u>6,070</u>	<u>6,370</u>	<u>5,870</u>	<u>4,210</u>	<u>4,500</u>
Preferred Dividends	150	170	180	190	190
Common Dividends	50	70	90	110	110
	<u>200</u>	<u>240</u>	<u>270</u>	<u>300</u>	<u>300</u>
Cash Surplus (Deficit) after Dividends	5,870	6,130	5,600	3,910	4,200
 <u>EXTERNAL FUNDING:</u>					
Common Equity and Surplus	350	370	Ø	Ø	Ø
Preferred Equity	200	200	Ø	Ø	Ø
Bank Revolving Line of Credit	2,380	2,300	3,400	3,090	3,800
Bank Term Loans	3,000	4,000	4,000	5,000	6,000
AID	1,000	2,000	2,000	1,000	Ø
Funds Available for New Investments	<u>12,800</u>	<u>15,000</u>	<u>15,000</u>	<u>13,000</u>	<u>14,000</u>
 <u>NEW INVESTMENTS:</u>					
Time Deposit	Ø	300	Ø	Ø	Ø
Equity	300	400	400	400	400
Term Loans	12,500	14,300	14,600	12,600	13,600
TOTAL	<u>12,800</u>	<u>15,000</u>	<u>15,000</u>	<u>13,000</u>	<u>14,000</u>

LAAD CARIBE S.A.

ANNUAL PROFIT AND LOSS STATEMENTS

As of October 31
 (US\$'000)

<u>INCOME</u>	<u>ACTUAL</u> <u>6/30/80</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
Interest Earned on Agribusiness	501	940	1,160	1,440	1,610	1,720
Interest Earned on Non-Agribusiness	79	40	30	30	30	30
Dividend Income	0	Ø	10	20	30	40
Other	<u>9</u>	<u>30</u>	<u>40</u>	<u>40</u>	<u>40</u>	<u>40</u>
	608	1,010	1,240	1,530	1,710	1,830
<u>DIRECT EXPENSE</u>						
Interest Expense	<u>126</u>	<u>230</u>	<u>340</u>	<u>450</u>	<u>530</u>	<u>550</u>
Gross Profit	482	780	900	1,080	1,180	1,280
<u>OPERATING EXPENSES</u>	<u>142</u>	<u>240</u>	<u>300</u>	<u>340</u>	<u>380</u>	<u>420</u>
<u>OPERATING PROFIT</u>	340	540	600	740	800	860
<u>NON-OPERATING EXPENSES</u>						
Reserve and Depreciation		<u>160</u>	<u>240</u>	<u>280</u>	<u>270</u>	<u>230</u>
<u>NET INCOME</u>	238	380	360	460	530	630
DIVIDENDS TO LAAD*	-	<u>Ø</u>	<u>Ø</u>	<u>(100)</u>	<u>(100)</u>	<u>(100)</u>
RETAINED EARNINGS	-	380	360	360	430	530
	=====	=====	=====	=====	=====	=====

* Eliminated in Consolidation

LAAD CARIBE BALANCE SHEET

AS OF OCTOBER 31

(US\$ '000)

<u>A S S E T S</u>	<u>Actual</u> <u>6/30/80</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
<u>Current Assets:</u>						
Cash	10	20	50	50	50	50
Time Deposit	550	700	700	700	700	700
Long Term Loans (Current Portion)	1,538	2,000	2,500	3,000	3,300	3,400
Interest & Other Receivables	<u>1,046</u>	<u>260</u>	<u>270</u>	<u>380</u>	<u>390</u>	<u>390</u>
	<u>3,144</u>	<u>2,980</u>	<u>3,520</u>	<u>4,130</u>	<u>4,440</u>	<u>4,540</u>
<u>Long Term Investment:</u>						
Equity Investment in Other Companies	50	150	350	550	650	750
Agribusiness Loans	<u>5,509</u>	<u>8,000</u>	<u>10,200</u>	<u>12,100</u>	<u>13,600</u>	<u>14,200</u>
	<u>5,599</u>	<u>8,150</u>	<u>10,550</u>	<u>12,650</u>	<u>14,250</u>	<u>14,950</u>
<u>Other Assets:</u>						
Organization Expenses(Net)	5	5	5	5	5	5
Furniture and Fixtures(Net)	5	5	5	5	5	5
Other	<u>9</u>	<u>10</u>	<u>20</u>	<u>10</u>	<u>0</u>	<u>0</u>
	<u>19</u>	<u>20</u>	<u>30</u>	<u>20</u>	<u>10</u>	<u>10</u>
TOTAL ASSETS	<u>8,761</u>	<u>11,150</u>	<u>14,100</u>	<u>16,800</u>	<u>18,700</u>	<u>19,500</u>
<u>L I A B I L I T I E S</u>						
<u>Current Liabilities:</u>						
Accrued Interest	78	50	110	150	170	170
Short Term Loans		160	160	120	20	70
Long Term Debt (Current Portion)		0	200	400	600	600
AID (Current Portion)		200	300	400	400	400
Other		<u>30</u>	<u>20</u>	<u>80</u>	<u>60</u>	<u>50</u>
	<u>78</u>	<u>440</u>	<u>790</u>	<u>1,150</u>	<u>1,250</u>	<u>1,290</u>
<u>Long Term Liabilities:</u>						
Bank & Private Borrowings		500	800	900	1,400	1,800
AID	<u>6,000</u>	<u>6,800</u>	<u>8,500</u>	<u>10,100</u>	<u>10,700</u>	<u>10,300</u>
	<u>6,000</u>	<u>7,300</u>	<u>9,300</u>	<u>11,000</u>	<u>12,100</u>	<u>12,100</u>
<u>Reserve:</u>	<u>304</u>	<u>530</u>	<u>770</u>	<u>1,050</u>	<u>1,320</u>	<u>1,550</u>
<u>Stockholders Equity:</u>						
<u>Paid-in Capital:</u>						
-Common Stock	2,000	2,000*	2,000*	2,000*	2,000*	2,000*
-Preferred Shares	0	0	0	0	0	0
-Surplus	0	0	0	0	0	0
-Retained Earnings	<u>380</u>	<u>880</u>	<u>1,240</u>	<u>2,030</u>	<u>2,030</u>	<u>2,560</u>
Total Shareholders Equity	<u>2,380</u>	<u>2,880</u>	<u>3,240</u>	<u>3,600</u>	<u>4,030</u>	<u>4,560</u>
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	<u>8,761</u>	<u>11,150</u>	<u>14,100</u>	<u>16,800</u>	<u>18,700</u>	<u>19,500</u>

*Eliminated at Consolidation

LAAD CARIBE CASH FLOW

as of ^{October} 31
(US\$'000)

<u>INTERNAL FUNDING:</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
Gross Income	1,010	1,240	1,530	1,710	1,830
Loan Amortization	1,100	2,000	2,500	3,000	3,300
Equity Divestiture	Ø	Ø	Ø	100	100
Dividends *	Ø	Ø	Ø	Ø	Ø
	<u>2,110</u>	<u>3,240</u>	<u>4,030</u>	<u>4,810</u>	<u>5,230</u>
 <u>CURRENT OBLIGATIONS:</u>					
Principal Payments of Short Term Line of Credits	Ø	160	160	120	20
Principal Payments of Bank Term Loans	Ø	Ø	200	400	600
Principal Payments of AID Term Loan	Ø	200	300	400	400
Interest Payments to Banks	30	80	120	150	160
Interest Payments to AID	200	260	330	380	390
Operating Expenses	240	300	340	380	430
	<u>470</u>	<u>1,000</u>	<u>1,450</u>	<u>1,830</u>	<u>2,000</u>
Cash Surplus (Deficit) before Dividends	<u>1,640</u>	<u>2,240</u>	<u>2,580</u>	<u>2,980</u>	<u>3,230</u>
Common Dividends *	Ø	Ø	100	100	100
Cash Surplus (Deficit) after Dividends	1,640	2,240	2,480	2,880	3,130
 <u>EXTERNAL FUNDING:</u>					
Bank Revolving Line of Credit	160	160	120	20	70
Bank Term Loans	500	500	500	1,100	1,000
AID	1,000	2,000	2,000	1,000	Ø
Available Funds for New Investments	<u>3,300</u>	<u>4,900</u>	<u>5,100</u>	<u>5,000</u>	<u>4,200</u>
 <u>NEW INVESTMENTS:</u>					
Equity	100	200	200	200	200
Term Loans	<u>3,200</u>	<u>4,700</u>	<u>4,900</u>	<u>4,800</u>	<u>4,000</u>
TOTAL	<u>3,300</u>	<u>4,900</u>	<u>5,100</u>	<u>5,000</u>	<u>4,200</u>

* Eliminated in Consolidation

FIVE YEAR PRO-FORMA FINANCIAL PROJECTIONS

October 1981 - October 1985

A S S U M P T I O N S

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The attached consolidated five years' projections for Latin American Agribusiness Development Corporation (LAAD) and its subsidiary LAAD Caribe are based on LAAD's operations experience and the following assumptions:

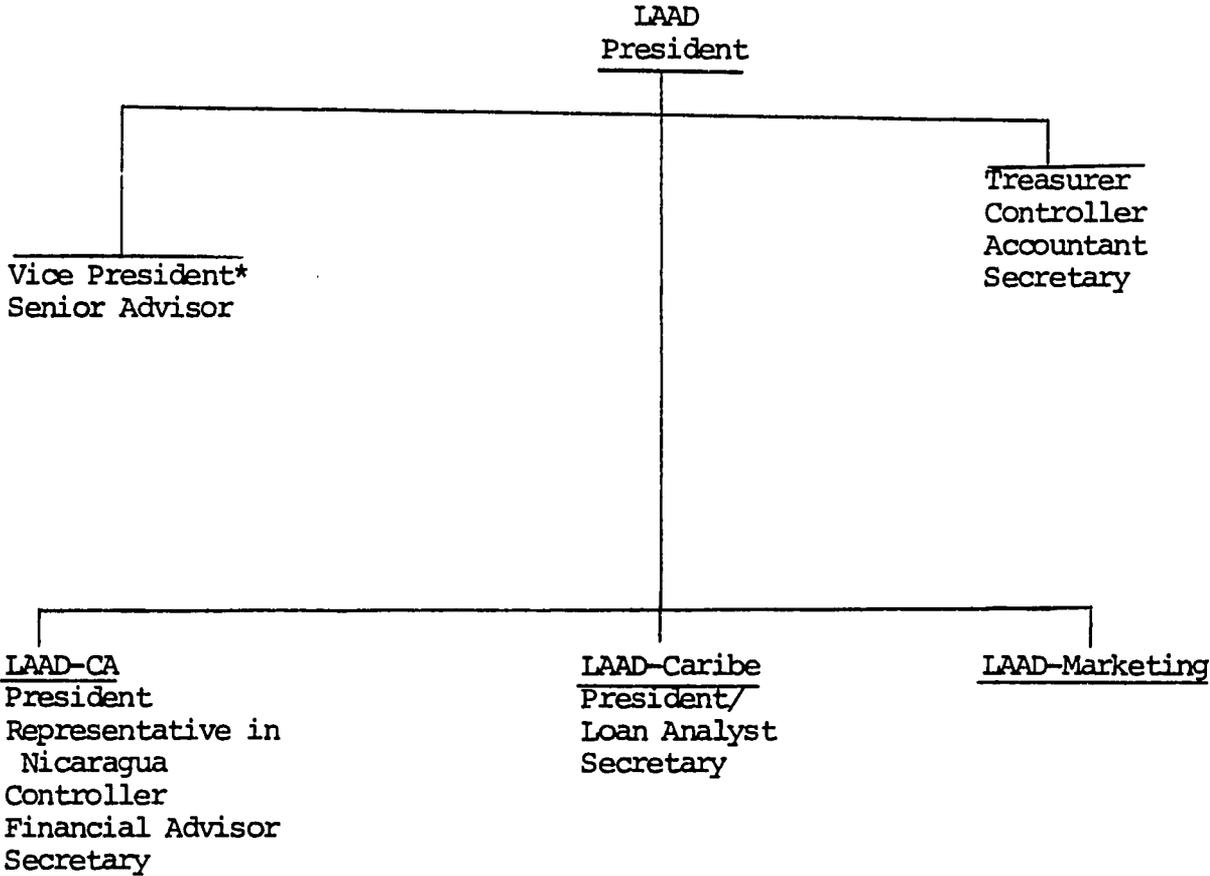
1. Although it anticipates raising an additional \$1.5 million in common stock by end of project, LAAD has been conservative in its projections and shows only \$400,000 in common stock and \$400,000 in preferred stock, or a total of \$800,000 in new equity.
2. LAAD and its operating subsidiaries will increase the medium term loans from commercial banks and other financial institutions to an aggregate amount of US\$22.0 million over the next five years. Repayments under these loans will come to an aggregate amount of \$10.0 million during the same period. These loans will be used to fund agribusiness subloans.
3. These projections are based on a fourth loan of \$6.0 million (for 20 years including a 5 year grace period carrying 4% P.A. interest rate) from the Agency for International Development (AID) for financing agribusiness projects located in the Caribbean. Disbursement is projected to begin in 1980/1981 and to end in 1983/1984.
4. Interest on LAAD's subloans funded by this AID loan was calculated at an average rate of 9.5% P.A.
5. No dividends were projected from equity investments during the first year of the life of each investment. An average dividend of 9% P.A. is projected thereafter on 80% of the balance of the equity. No capital gain on equity divestitures was projected.
6. Interest on time deposits was calculated at an average rate of 7% P.A.

7. Operating expenses were calculated at an average increase of 12% for years 1981 through 1985. Such expenses were based on adding three professional persons to the present staff. The additional staff will be assigned to work for LAAD Caribe (2 persons) and a new South American operation (one person).
8. Reserve against possible losses on loans and equity investment will continue to be established at a rate of 4% through 1985 to be amortized over a 12 month period from the date of disbursement. On top of that a surcharge reserve will be assessed in an amount equal to 1/2% of the Corporation's exposure with its delinquent accounts for 91 days or more. Such reserve will be added and retained in the general reserve. An annual \$250,000 surcharge reserve was projected for the five year period. The company will revise its reserve requirement every year before the end of its fiscal year.

Since it is difficult to determine the future amount of write-offs against the reserve, it is continuously built up with no adjustment for loan repayments.
9. Dividend payments of 1.5% to LAAD's common shareholders and 6.5% to preferred shareholders were projected out of earnings of 1980/1981. These dividend payments were projected to go up by 0.5% annually until 1983/1984 after which it would level off.
10. The average life of subloan is expected to be five years including a year's grace period on principal payments. Accordingly, the current portion of the loans (loan amortization) was calculated at a rate of 20% approximately of the outstanding loan portfolio on October 31 of each year.
11. The anticipated interest receivable on October 31 is assumed to reach approximately 1/4 of the projected gross income of each year.
12. The anticipated interest payable on October 31 is assumed to be approximately 1/3 of the projected interest charged by AID and banks.
13. Loan repayments to AID are based on the loan agreements with them.

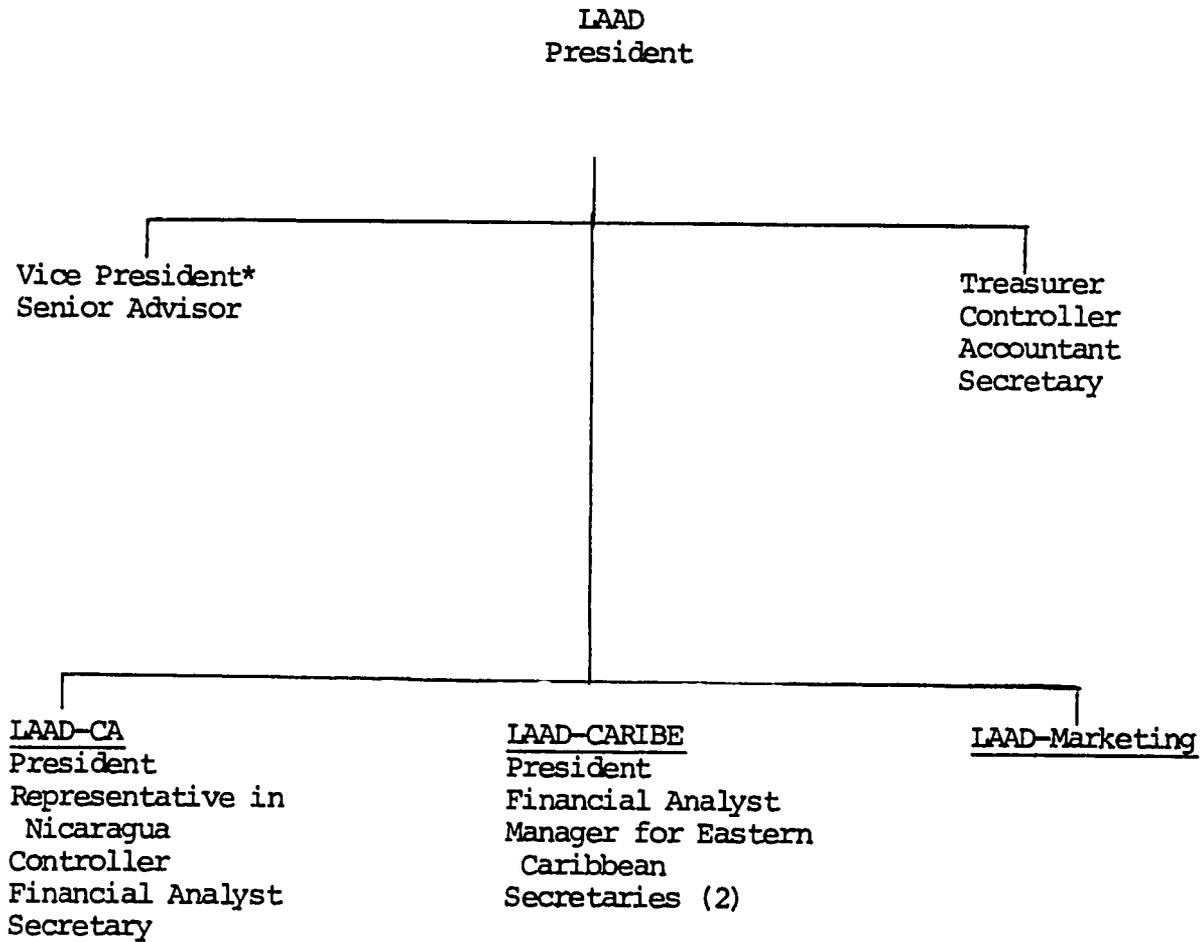
14. Loan repayments to banks after the grace periods were calculated at a rate of 20% for medium term loans and 33% for loans extended to the company after 1981.
15. PARAMETERS
 - A. At no time shall the consolidated current ratio fall below 1.4:1.
 - B. At no time shall the consolidated debt/equity ratio exceed 5:1.

LAAD ORGANIZATION (CURRENT)



*VP is President of LAAD-CA

LAAD ORGANIZATION CHART (PROPOSED)



*VP is President of LAAD-CA

PROJECT ASSESSMENT FORM
(Pre-funding Analysis)

A. Name and Description of Proposed Project

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

Description of Type/Nature of Effect to be Produced

Baseline Date 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

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-à-vis achievement of above three goals

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 ac-
cording 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.