

PD-AAI-060

596-0097 - ①

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

ROCAP
PROJECT PAPER

AGRIBUSINESS EMPLOYMENT/INVESTMENT PROMOTION

AID/LAC/P-076

Loan Number: 596-T-017
Project Number: 596-0097

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 <input checked="" type="checkbox"/> A	Amendment Number _____	DOCUMENT CODE 3
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2. COUNTRY/ENTITY CENTRAL AMERICAN REGIONAL	3. PROJECT NUMBER 596-0097
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4. BUREAU/OFFICE ROCAP <input type="checkbox"/> 5	5. PROJECT TITLE (maximum 40 characters) AGRIBUSINESS EMPLOYMENT/INVESTMENT PROM.
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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>81</u> B. Quarter <u>3</u> C. Final FY <u>81</u>
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8. COSTS (\$000 OR EQUIVALENT \$1 =)						
A. FUNDING SOURCE	FIRST FY <u>81</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. 1.						
Other U.S. 2.						8,800
Host Country						
Other Donor(s)						
TOTALS	6,000		6,000	6,000		14,800

9. SCHEDULE OF AID FUNDING (\$000)									
A. APPROPRIATION	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	118		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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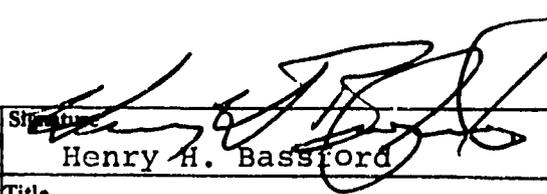
12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each) A. Code _____ B. Amount _____

13. PROJECT PURPOSE (maximum 480 characters)

To expand private agribusiness investments in Central America.

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: Acting Director	18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION Date Signed: MM DD YY 05 15 81
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UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D C 20523

ASSISTANT
ADMINISTRATOR

P-081

PROJECT AUTHORIZATION

Name of Entity: Latin American Agribusiness Development Corporation, S.A.
Name of Project: Agribusiness Employment/Investment Promotion
Number of Project: 596-0097
Number of Loan: 596-T-017

1. Pursuant to Section 103 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Agribusiness Employment/Investment Promotion 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 three year period from the date of authorization, subject to the availability of funds in accordance with A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the project.

2. The project ("Project") consists of the expansion of private agribusiness investments in Central America.

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.

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 countries included in A.I.D. Geographic Code 941.

c. Conditions Precedent to Disbursement

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.:

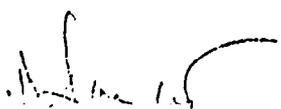
(1) A plan for the objective and comprehensive review of all investments and subloans proposed to be made by LAAD or any Central American subsidiary of LAAD to assure that such proposed activities are financially and technically sound;

(2) A plan for the evaluation of proposed subproject activities by LAAD or any Central American 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;

(3) A statement by LAAD and any Central American subsidiary of LAAD setting forth the eligibility criteria and procedures each will follow in authorizing and administering investments and subloans;

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

(5) A statement by each of LAAD and any Central American subsidiary of LAAD setting forth its respective policy with regard to a reserve for bad debts and an indication of its respective financial targets for increasing the reserve over the next three years.



Acting Assistant Administrator
Bureau for Latin America
and the Caribbean

7/10/81
Date

Clearances:

GC/LAC: BVerot: 7/10/81 date 7/12
LAC/DR: PBittner: date
LAC/DR: MBrown: date 7/13

GC/LAC: DAAdams: 7/16/81: 29183

AGRIBUSINESS EMPLOYMENT/INVESTMENT PROMOTION
PROJECT PAPER

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I. SUMMARY AND RECOMMENDATIONS

A. RECOMMENDATIONS

The Project Committee recommends the Agribusiness Employment/ Investment Promotion Project for AID approval.

Loan (Loan terms: 20 years, 5 year grace period with interest at 4 percent)	\$6.0 million
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Total New AID Obligation	\$6.0 million
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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 development in Latin America. 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 ventures with special 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 Central American rural poor. The project's sub-goal is to stimulate economic and agricultural growth, create employment and increase rural incomes. The purpose is to expand private agribusiness investments in Central America.

An important objective of this project is a demonstration of AID support of private sector activities in Central America at a time when working and investment capital credits from commercial sources have all but evaporated. Admittedly, AID's resources are miniscule in comparison to the region's needs. Yet, a cofinancing requirement whereby AID's \$6 million loan will be matched by \$6 million in borrowings from private resources, will demonstrate a measure of confidence in the region, as well as in LAAD, which is heavily exposed and substantially committed to Central America. LAAD will place a minimum of one third of the private bank borrowings in Central America (\$2 million). In addition, sub-borrowers will invest at least \$6.8 million of their own resources in the projects.

It is estimated that about 23 subprojects, in the areas of food production, agricultural inputs, processing, packaging, storage and transportation will be financed during the three year AID loan. LAAD's average investment in each subproject is estimated at \$350,000. Further, the project will directly create about 3,000 new jobs during the first round of loan utilization.

C. FINANCIAL PLAN

Conservatively estimated the project will provide about \$14.8 million in new funds over the three year period as shown below. These figures do not include an additional \$ 22.7 million from repayments and profits of previous subloans which LAAD will be reinvesting in Central America over the next three years.

<u>Source</u>	<u>Amount</u>
AID	\$6.0 million
Private banks	\$2.0 million
sub borrowers	<u>\$6.8 million</u>
<u>TOTAL</u>	\$14.8 million

D. SUMMARY FINDINGS

The Project Committee has determined that the proposed project is technically, financially and administratively feasible for completion within a three 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. However, AID approval is required only for subloans in excess of \$500,000. The project meets all other statutory criteria. (See Annex B, Statutory Checklist.)

E. ISSUES

The proposed project presents no unresolved issues.

F. PROJECT COMMITTEE

Peter Bittner	-	LAC/DR
Norman Chapin	-	LAC/DR
Rafael Franco	-	ROCAP
Clark Joel	-	ROCAP
Edward Nadeau	-	ROCAP
Susan Schaeffer	-	LAC/DR

II. 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, 16 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, Santo Domingo and Bridgetown.

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 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 risk 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 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, 1980 (LAAD's fiscal year end) the corporation had over \$32 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 \$2.4 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 \$300,000. For financing requirements below that level the President of LAAD has authority to commit the resources of the corporation for eligible projects.

LAAD consists of the 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, with 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 subprojects that are LAAD's portfolio. The exception to this is LAAD-M, the subsidiary formed within LAAD to assist sub-borrowers in developing their marketing capabilities. However, due to operational difficulties several years ago, LAAD-M is inoperative.

The East Caribbean office in Bridgetown was established on April 1, 1981 as a condition precedent to initial disbursement for the Caribbean Agribusiness Expansion Loan (538-T-014).

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 investment officers (one in Nicaragua), a comptroller and a secretary. In the Dominican Republic there is a president/investment analyst and a secretary. See Annex G, Exhibit 1 for Organization Chart.

2. Previous AID Loans to LAAD:

AID has made four previous loans to LAAD. The first of these signed in 1971 for \$6.0 million was utilized for agribusiness project development in five Central American countries; Panama was excluded (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 AID

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 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 subprojects 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 LAAD-Caribe to carry out subproject development in the Caribbean region and Panama. 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 subprojects.

The most recent loan to LAAD, signed in August 1980 for \$6.0 million, is focused on agribusiness expansion in the Eastern Caribbean. Under this project, LAAD will finance an estimated forty-four agribusiness projects which are expected to create about 10,000 jobs. A special feature of the project is a cofinancing arrangement whereby LAAD will match the \$6 million AID loan with private bank borrowings.^{1/} Coupled with LAAD's own resources (\$7.3 million), AID funds (\$6 million), and private bank borrowings (\$2 million), the \$15.3 million will be available to finance subprojects in the Caribbean. Another important aspect of this project was the establishment of a new LAAD office in April, 1981 in Barbados to facilitate project identification and development. As of March 31, 1981 there were five subprojects financed under the program with disbursements totaling \$595,000.

3. Analysis of Performance:

The overall thrust of the AID loans to LAAD has been to assist LAAD to become a viable institution providing medium-term financing and technical

^{1/} Of this \$6 million in borrowings from private sources, LAAD will utilize \$2 million in the Caribbean and the remaining \$4 million in South and Central America.

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 basis for 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 the 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 has successfully promoted, developed and implemented non-traditional agribusiness subprojects in a systematic manner, and that LAAD has provided adequate technical assistance to the subprojects with which it had been involved.

The Checchi 1977 evaluation gave LAAD high marks in the area of economic impact, though only a barely passing grade on financial viability. Some of the major findings on economic impact are cited below:

"By making loans to processors of non-traditional products, LAAD-CA does help to create new opportunities for economic and social advancement to both the landed (primarily through raw material purchases) and landless segments (through employment) of the rural poor, whose only previous access to such opportunities was through migration."

"Participation by small farmers in LAAD-CA's projects leads to increases in family labor time, increases in the productivity of such labor, and increases in the family's agricultural investments."

"Although AID/ROCAP has strongly emphasized the landed segment of the target group, LAAD-CA sponsored commercialization of non-traditional agricultural products can also benefit, although to a lesser extent, the landless segment of the rural poor."

"A major proportion (64%) of LAAD-CA's projects create direct employment opportunities in rural areas. Indirect rural employment is likely to be even greater."

"Non-traditional processors may have a significant indirect effect on rural employment as the result of the encouragement they give to non-traditional medium and large farmers, who offer a new type of more

skilled, year-round employment. These jobs are qualitatively different from the unstable, highly seasonal, or migratory jobs offered by large farmers in many traditional crops."

While Checchi described LAAD's performance in the area of foreign exchange earnings as "lackluster," its figures show otherwise. The six sub-projects visited by Checchi which received direct loans from LAAD totalled \$2.0 million. These loans generated sales estimated at \$11.1 million, exports of \$3.7 million and net foreign exchange impact (after deducting outlays from imports, dividends and interest payments) of \$1.0 million.

Available evaluations of LAAD's financial performance and viability through 1977 were more restrained. Checchi found that: (a) "the asset base of LAAD-CA is not yet large enough to ensure that the organization will continue to grow and become a major factor in the Central American non-traditional agricultural picture"; (b) "prospective earnings of LAAD-CA at best would be only sufficient to finance the repayment on AID loans..."; (c) "LAAD-CA has not yet built up an equity portfolio which promises significant gains in the foreseeable future"; (e) "LAAD-CA's expenses were found to have been rising steadily, putting pressure on its earnings."

This evaluation does not reflect two current considerations: first, since 1977, LAAD has been operating consistently in the black, though profits to date have been modest in relation to equity. Second, the consolidated financial statements of LAAD show a significant increase in profits over 1977 as shown in the following table. Between 1977 and 1979, net income increased from \$374,503 to \$704,415, or by 88%. There was no significant change in 1980. For LAAD-CA, on the other hand, profits increased in 1978 and again in 1979, but declined in 1980, due to significant charges to bad debt reserves in order to provide a contingency against possible future losses. Net income for 1981 is projected at about the same levels as 1980.

LAAD'S NET INCOME

Year Ending Oct. 31	<u>LAAD: Consolidated Statements</u>	<u>LAAD-CA</u>
1977	374,503	452,548
1978	511,108	517,286
1979	704,415	587,638
1980	708,745	442,662

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 subprojects, concluded that LAAD was applying AID's criteria for subproject financing. The subproject 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."

A review of LAAD's Central American loan portfolio presented in Annex I, Exhibit 3 shows that LAAD has directed its loans and investments toward the purposes for which it was established. The loans were granted to enterprises engaged either in the production of agricultural and livestock products or in the processing, transportation and marketing of such products. The only exception to that rule was a loan to Technical Universal for production of small farm equipment and tools, and to enterprises providing various technical services to farmers and processing firms. Most loans went for the establishment, development or expansion of food processing firms, and for the production, processing and marketing of fruits and vegetables, vegetable oils, flower and ornamental plants, grains, poultry and livestock products.

4. Project Rationale

The Central America area is in an economic crisis. Mounting economic problems include severe balance of payments disequilibria, widening fiscal deficits, lower levels of central bank credit for the private sector, declining net private investment flows, reductions in real incomes and increases in unemployment. Among the causes of the crisis are political disturbances and adverse changes in the terms of trade e.g. much higher prices for oil imports and sharp decreases in prices for coffee exports as well as a deterioration in prices for the other few agricultural exports that provide the bulk of export earnings. The economic stimulus of the CACM has also been reduced by political and economic problems and by a reduced scope for potential investments in import substitution projects.

The private sector has been particularly hard hit or demoralized by adverse economic and political developments. Private investment is being reduced or is at a stand still. Traditional foreign financial sources such as commercial banks have reduced their lending limits or eliminated credit lines and thus have added a foreign dimension to the squeeze on central bank credit caused by balance of payments and fiscal problems. In some cases, the private sector has reacted to these adverse developments with the flight of capital and entrepreneurial talent.

The private sector must play a vital role in restoring stability and growth in the area. Steps need to be taken to improve the climate for private sector investment and to make sure that the private sector has access to foreign exchange for essential imports and access to working and investment capital. A private sector study, sponsored by ROCAP, and being carried out by a "blue ribbon" commission of businessmen with technical assistance from the Central American Business School (INCAE) will be making a number of recommendations along these lines. In the context of the current economic crisis and long-range problems facing the area, new development projects that increase output, incomes, employment and exports clearly have the highest priority.

AID's support of an expanded LAAD program through the proposed loan will thus contribute directly to addressing the area's most pressing economic problems and supporting an institution and its clients that have already made a significant contribution to developing agribusiness and diversifying exports in the area. The AID loan to LAAD will also be an important step in supporting the private sector in general. In addition, AID's backing will facilitate LAAD's access to private funds for long term financing.

The benefits to be derived from LAAD's subprojects include (a) increase in incomes and productivity of small farmers as a result of ability to shift to higher-value crops for which there is a guaranteed market; (b) increased employment in processing plants and in the field; (c) increase and diversification of export earnings at a time when the region is suffering from a serious foreign exchange constraint; (d) improved nutritional composition of the local diet. This loan to LAAD is particularly important because it represents an effort to expand the private agribusiness sector, at a time when commercial credits and foreign investment are contracting. LAAD's capacity to identify quickly, develop, fund and implement subprojects is vital given the immediacy of the area's needs. Thus, AID's continued support for LAAD would not only provide long-term project financing, but will, in addition, demonstrate the importance of the Central American region to the United States.

LAAD has always represented a pioneering effort that has the potential to continue to stimulate agribusiness and agriculture in Central America 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.

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. In Central America there exists a great need for private sector institutions that can provide necessary assistance to agribusiness and small and medium scale rural enterprises. This is exactly the role LAAD will play. Through focussing on agribusiness opportunities, LAAD can have a long-run impact on the agricultural sector as well as on employment, incomes and diversified export earnings.

5. Relationship with other Institutions

The previous ROCAP lending program to LAAD served as the model for the 1977 loan with the Central American Bank for Economic Integration (CABEI). The objectives of this CABEI loan are to develop non-traditional agribusiness activities in Central America which provide benefits to the

rural poor and to improve the institutional capability of CABEI and the national development banks to promote and finance agribusiness activities. The \$15 million AID loan, to be matched by \$5 million from CABEI will be relented exclusively to ICIs to finance agribusiness activities. Project funds are being used to finance: a) capital equipment needs by agribusiness, b) technical assistance for borrowers, and (c) the purchase of raw materials for processing and other working capital requirements.

Both LAAD and CABEI maintain a close working relationship with ICIs and both of these lending institutions have co-financed agribusiness projects with ICIs. LAAD's portfolio shows they are currently co-financing six projects with CABEI.

LAAD, in addition, is co-financing 44 projects with other ICIs in which CABEI is not participating. For current LAAD and other ICI financing projects see Annex I.

B. DETAILED DESCRIPTION

1. Goal, Sub-goal and Purpose

The goal of this project is to improve the standard of living of the Central American rural 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, create employment and increase rural incomes.

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; 3) increase production and productivity; 4) expand marketing opportunities; 5) facilitate new product development; 6) increase foreign exchange earnings.

Agriculture is a principal contributor to GDP in most Central American countries and as a sector it employs a large percentage of the labor force. Virtually all countries have considerably greater agricultural potential than is presently being realized. This includes food for domestic production, 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 agricultural output.

The purpose of this project is to 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 finance those entrepreneurial opportunities in agribusiness which offer substantial potential for impact on a priority target group composed of small farmers and landless laborers.

2. End of Project status: The EOPS will be measured by the number of subproject investments undertaken by LAAD projected at 23. As a result of this project we also expect LAAD will be financially and institutionally stronger as well as more diversified. As a condition to the AID loan, LAAD will undertake to secure \$6 million in private bank borrowings. In addition, LAAD will selectively undertake new investments in South America in order to reduce its country risks and diversify its portfolio. (This diversification will be financed through commercial bank borrowings or LAAD profits.) At the same time LAAD's overall level of investment in Central America will increase.

During the course of this project and as agreed to in the current LAAD-Caribe loans 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 in Central and South America and the Caribbean.

As of October 1980, LAAD's assets totalled about \$32 million and included about \$30 million in outstanding agribusiness loans. By the end of the project (approximately June 1984) these figures are projected to grow to \$70 million and \$65 million respectively. LAAD will also have gained additional exposure to private capital sources in the international capital market and will have invested about \$4 million in 11 subprojects in South America - probably Ecuador, Peru and Chile.

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 small 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. Subproject 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 who's 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 subprojects previously financed by LAAD. Probably about 40 percent of the labor force currently employed by LAAD-funded subprojects is comprised of women. Employment opportunities are particularly good in fruit and vegetable processing, plants, seeds, and other labor intensive subprojects where women constitute about 80 percent 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'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 (working capital) financing of routine raw material procurement will be required as well as the traditional plant and equipment capital investments by companies to which the main mode of financing will continue to be term lending and equity investment.

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. In addition, LAAD will attempt to emphasize sub-projects in which there is a substantial extension component as a way of demonstrating the role of private business in servicing small farmers technical needs.

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; warehousing should be linked 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. This loan was signed with LAAD on September 15, 1980. The Central American program described below reflects an AID loan of \$6 million, an additional \$6 million from Private Bank borrowings of which at least \$2 million will be placed in Central America and Panama and \$6.8 million from sub borrowers. An estimated 23 sub-projects will be financed at an average LAAD investment of \$350,000 each in the six Central American countries from the resources of this project. Counting reflows and profits from previous sub-loans, which are projected at \$22.7 million, LAAD will also have these resources available for Central America over the three year life of this project.

(1) 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 decortivating (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 and incomes. 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.

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 the owner's reluctance to expand ownership. Other difficulties relate to LAAD's own reluctance to purchase the equity without having first established good personal and business relationships as well as considering divestment plans. 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 channel AID monies to subprojects which have the potential of either generating substantial additional employment or of increasing small farmer incomes, AID funds will be restricted to financing new LAAD projects and existing subprojects in which substantial additional employment and/or increases in small farmer incomes and productivity will be generated by follow-on investment. For those projects which require follow-on financing but which do not meet this criterion, LAAD's own resources will be utilized. LAAD's projected loan portfolio (presented in Annex I) shows a heavy concentration of loans to processing firms in the areas of fruits and vegetables, vegetable oils, general food processing, basic grains, poultry, cattle and meat processing -- which, in most cases, involve purchases of raw materials that can be produced by small farmers under labor-intensive conditions.

(2) Co-financing and Diversification

In order to insure its own financial viability, LAAD requires access to international capital markets. Yet, access to these markets, as well as to a broader equity base, has been difficult to obtain. A major objective of this program as well as the most recent LAAD-Caribe loan, therefore, is to tap the private capital market for resources to be utilized by LAAD for subprojects meeting the same general

criteria as set forth in AID loan agreements. This 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 subproject 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 \$8 million. However, resistance to substantial future increases in term borrowings from shareholder banks is expected principally because of 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 the prevailing level of violence and political uncertainties in several C.A. countries where LAAD has a significant exposure, the private capital market cannot be readily tapped for investment in the Central America region. This would become feasible only after violence recedes, political stability is restored and the overall economic situation improves. Further, LAAD has to take some measures to reduce the percentage of its holdings in Central America. The long-term nature of AID funding will significantly strengthen LAAD's balance sheet by providing it with a continuing high current ratio and an acceptable liquidity level. It will also partially compensate for the high cost of borrowing in the international market. The amount of bank borrowing that LAAD can obtain is, in part, dependent on LAAD's financial strength as measured by its debt-equity ratio (now about 3 to 1), its current ratio, the maturity of its obligations in relation to its assets, and the net rate of return on its investments. An additional AID loan would significantly improve LAAD's position with respect to the latter three. Moreover, since the \$6 million AID loan would be matched by an additional \$6 million in commercial bank credit, the amount of LAAD's resources would be increased by \$12 million, an amount that will be turned over several times during the twenty-year maturity of the AID loan.

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 Central America. Commercial and investment bankers view Central America with great uneasiness. Political uncertainty

brings about project uncertainty and as LAAD's portfolio is heavily concentrated in Central America bankers are skeptical about loans to a company "as exposed" as LAAD. Over time, LAAD intends to reduce the percentage of its Central American holdings to a lower level.

As derived from LAADs 1980 annual report and the financial projections in Annex F, LAAD presently has about 74% of its loan and equity investments in Central America. This percentage is projected to decline to about 51% by 1985. At the same time, LAAD's investments in Central America will increase from about \$22.1 million in 1980 to \$35.7 million by 1985. Thus, while the absolute level of investments will rise, the relative exposure for LAAD consolidated will be reduced. Calculations as follows:

	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
<u>LAAD-CA Investments</u>	<u>21.0</u>	<u>22.1</u>	<u>22.7</u>	<u>25.8</u>	<u>29.6</u>	<u>32.9</u>	<u>35.7</u>
<u>LAAD-Consolidated Investments</u>	27.6	29.8	36.1	45.5	54.8	62.9	70.2
Equity and loan investments of LAAD-CA as a percentage of equity and loan investments of LAAD-consolidated	76%	74%	63%	56%	54%	52%	51%

Thus, although the entire \$6 million AID loan will be invested in Central America, only about \$2 million (or 33%) of the private borrowings will go into Central America.

With regard to LAAD's progress in raising private bank borrowings under the recent Caribbean program, LAAD has obtained a one year renewable loan commitment of \$2 million at .75% over LIBOR from one bank and a \$500,000 one year, renewable loan commitment at 1 1/8% over LIBOR from another bank. LAAD had sought a five term loan from the first bank at a maximum of 1 1/8% over LIBOR, but the bank was not willing to lend at less than 1 1/2% over LIBOR. Thus LAAD opted for the one year renewable loan at a lower interest rate. Despite the shorter term of the commercial loan, LAAD will use the funds and lend to its clients on a term basis (generally 3-5 years).

(3) 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 \$7.9 million, composed of \$3.2 million in common stock, \$2.2 million in preferred and \$2.5 million in retained earnings. This loan does not require LAAD to raise additional equity, principally because the recent Agribusiness Expansion loan with LAAD in the Caribbean places a "best efforts" requirement to raise an additional \$1.5 million for the parent corporation.

Despite a more favorable earnings record over the past two years, raising additional equity will be difficult. In the first place, LAAD will still be operating in high risk countries with small and medium-sized agribusinesses. Secondly, due to problem projects in Nicaragua and El Salvador (necessitating the need for increased bad debt reserves) net earnings are projected to decrease in 1981. Yet, the requirement for increased equity in order to support an expansion of lending operations remains strong. Several categories of investors are being targeted:

- 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. A German bank has expressed an interest. LAAD plans to follow up previous conversations with this bank during the coming months.
- The IFC. LAAD has approach the IFC for an equity and term loan investment.

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; (3) they may have a corporate social responsibility to the region; and (4) they want to reach a smaller level of investor. Thus, LAAD will have to target its efforts at those investors not necessarily seeking immediate profits but rather on those with less tangible motives.

LAAD's Board of Directors has set an equity target of \$2.5 million as the first stage in attracting new equity and LAAD (with AID approval) paid a 1 percent common stock dividend for the first time at the end of its fiscal year 1980. LAAD's strategy is to demonstrate to prospective shareholders that it is financially sound and can afford to pay dividends, however modest.

(4) Expanded and Strengthened Organization

LAAD's recent expansion into the Eastern Caribbean required establishing a new office in order to adequately identify and develop new projects as well as monitor a growing portfolio. Thus, LAAD enlarged its Caribbean staff by employing an additional investment officer for its Bridgetown office. A second officer will probably be added during 1983 or 1984.

For Central America, another officer will be added to the Guatemala office during the course of this loan, principally to assume new project identification and development work. Within about two years LAAD will also establish an office by adding an investment officer in South America to service the planned expansion in new projects and to monitor a growing portfolio in that region.

(5) Marketing Activities

LAAD's marketing subsidiary has been inactive largely because the sub-borrowers needs have been so varied and specialized that it

was difficult to provide marketing assistance without first examining the problems of the entire business. LAAD has found that marketing is rarely the only problem and that its investment officers in conjunction with the borrower are often in the best position to judge which problems should be addressed first and what type of specialized assistance, if any, is required. More often, a problem which on first glance appears to be marketing related, actually stems from production, raw material or quality control difficulties. Thus, specialized marketing assistance can only be effective after the root of the problem is addressed.

In the immediate future, LAAD intends to continue its current policy of providing specialized marketing assistance through intermediaries such as the International Executive Service Corps or on occasion its shareholder companies. As LAAD's client base expands, however, and if marketing problems in and of themselves become a serious constraint to clients' operations, LAAD may consider reactivating its subsidiary or perhaps acquiring a marketing (import) company.

(6) Subproject 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 subprojects LAAD finances conform not only to economic and financial criteria but also the areas of priority concern to AID (increased food production, employment, and rural farm income), subproject selection criteria and a screening system for these criteria were developed and applied to the last two AID loans. These criteria remain valid and will be incorporated in this AID loan.

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

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

The degree to which this criterion 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 subproject 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 criterion will be the subproject'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 subproject 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. Lastly, in view of the critical need for working capital in the region at this time, LAAD will be permitted on a case by case basis to loan AID funds for the working capital requirements of its sub-borrowers in those instances when commercial funds are not available.

As in the case of previous loans, subprojects can be grouped and classified into two basic categories for purposes of assessing a subproject'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, employment was generated at a cost of about \$3,500 per full time job. This loan projects a cost of \$ 5,000 to establish one full time 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, linkages to other agro or service industries or sources of supplies, 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 such as a tomato production and processing operation. Additionally, the recommended level was chosen recognizing that to restrict LAAD financing only to subprojects 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 subproject 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 subproject's economic activities through linkages described below.

With regard to the criterion of small farmer linkages to subprojects, the following list illustrates how such linkages can be verified. LAAD's analysis of the subproject 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 service 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 farmers.
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 H) designed by LAAD in previous LAAD loans will again be required for this project. The Assessment Form will serve as a checklist for LAAD in analyzing its subprojects and for the AID Project Manager in reviewing subprojects financed by LAAD. This combined approach serves as a screening of proposed project via 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 subprojects.

III. Project Analysis

A. Economic Analysis

1. Role and performance of the agricultural sector in Central American Development: The case for accelerated growth.

The importance of the agricultural sector in the Central American economy is illustrated by the following: the sector accounts for 25% of the GDP, absorbs 52% of the labor force and provides 68% of the region's total export earnings.

Two other considerations further contribute to the importance of the agricultural sector: first, it has the potential to play a much more important role in the region's economy -- both as a foreign exchange earner and as a source of additional income -- than it has so far. This potential is based on the region's excellent climate for the growing of all types of agricultural products -- particularly fruits and vegetables -- for which there is a ready market in the United States; it also resides in the fact that current agricultural yields are substantially below potential as modern technology has not been brought to bear so far to any significant extent. SIECA, for example, estimates that existing average yields in corn are only 27% of yields obtained on commercial farms. The ratio for actual average to commercial farm yields for sorghum, beans and rice are 25%, 51% and 40%, respectively. If average existing yields were compared to yields obtained in experiment stations, the potential for expanded production would loom even larger. (See Annex I, Exhibit I).

A second major consideration underlying the importance of the role that agriculture must play in Central American development relates to the employment pictures. While there are no reliable data on unemployment and underemployment rates, these are known to be substantial. In its recent CDSS (for FY 83), ROCAP estimated that unemployment and underemployment combined amounted to 25% in Costa Rica, 25 to 30% in Honduras, Guatemala and Nicaragua, and 30 to 40% in El Salvador. Given the three per cent annual population growth rate that has shown no tendency to decline in recent years -- and the much higher rate of population growth in the Central American Capitals that is far in excess of their ability to provide jobs, it is clear that employment opportunities in the cities cannot be expanded fast enough to absorb the existing number of urban unemployed in addition to the influx from the rural areas as long as it proceeds at the current rate.^{1/}

^{1/} It is not argued that resources should be shifted from the development of other sectors to agriculture. Clearly, the manufacturing, construction, infrastructure development and service sectors must also be developed as rapidly as possible as the trend toward urbanization is unstoppable and irreversible. However, agriculture must contribute to the absorption of some of the present substantial amount of under employment as well as of the continuing rapid increase in the labor force.

Analysis of available data on the agricultural sector in Central America reveals two major weaknesses: a disturbing decline in the growth rate of value added by agriculture and the continuing heavy dependence of agricultural exports on a few major primary products.

Value added by the agricultural sector increased, in real terms, at an average annual rate of 5.6% over 1960-65. That rate declined to 4.9% over 1970-74 and to 2.9% over 1974-1979. Thus, over the past five years, total agricultural production has increased at a rate slightly below the annual rate of population growth.

We have noted that agricultural exports constitute 68% of total merchandise export earnings. However, most of the region's agricultural exports consist of only four products -- coffee, cotton, bananas and sugar, which together account for 61% of total export earnings. Of the four products, coffee is the most important by far, which gives cause for special concern on account of low current coffee prices, dim prospects for a price increase in the near future, and the spread of coffee rust throughout the region which is certain to reduce production and increase costs. Thus, there is a compelling case for accelerating the growth of the agricultural sector and for diversifying agricultural production and exports.

2. The role of the private sector in agricultural development

Central Americans tend to place major emphasis on public investment in their development programs. Yet, private initiative and organizations such as LAAD and the private "financieras" must play a major role if the ambitious targets set for the agricultural sector by the governments' development programs are to be attained. While the public sector can provide the physical infrastructure, research, extension services, market information and agricultural credit to certain categories of end-users, a major gap remains that must be filled by private sectors activity. Specifically, the private sector must provide (1) types of capital investment and services not provided by public institutions such as processing plants, marketing services, and the coordination of production, processing, transportation and marketing functions; (2) much of the technical expertise required as well as equity capital for risky new ventures in non-traditional activities. Moreover, public institutions such as development banks are generally slow in acting on credit applications and provide little assistance to potential borrowers to enable them to formulate well-conceived projects.

3. The Credit picture

The credit situation in Central America has the following characteristics:

More than half of the credit extended by the banking system to the

agricultural sector goes to the two major export crops -- coffee and cotton.^{1/} This is clearly illustrated by the data for two of the C.A. countries presented in Annex I, Exhibit 2. Note that in Guatemala and El Salvador, the proportion of the total credit extended by the banking system to the agricultural-livestock sector that goes to finance the three major export crops is 51% and 87%, respectively. In all of the countries for which we have data, less than 25% of the credit allocated to the agriculture-livestock sector goes to basic grains and other non-traditional agricultural crops such as fruits and vegetables.

The allocation of bank credit favors heavily borrowers able to pledge adequate collateral. The system discourages lending to small farmers and enterprises and to innovative or risky ventures.

Even development banks in C.A. generally do not help prepare projects. They study and evaluate projects submitted for financing but do not provide potential borrowers the technical assistance required to transform their proposals into feasible projects. This factor, combined with the scarcity of qualified staff at the command of potential borrowers, explains the scarcity of well-conceived projects in the region.

Public credit institutions are generally slow to act on loan applications and project proposals. Moreover, they are very reluctant to take equity positions in new enterprises entailing a high degree of risk.

4. Quantitative evaluation of impact to date

LAAD has conducted a self-evaluation of the economic impact of its activities with the help of its sub-borrowers. Each sub-borrower was asked to estimate the impact of the LAAD loan on the number of small farmers benefited, the increase in take-home pay realized by small farmers, the number of new jobs created, the contribution of the project to value added and the amount of additional exports generated. Consultations were then conducted between LAAD staff and each major sub-borrower to discuss and verify the estimates. The overall assessment of the economic impact of both LAAD Consolidated activities and LAAD-CA are summarized in Table I.

Note the following:

The estimates in Table I refer to the impact of the LAAD investment taken by itself. They exclude the impact of additional paid-in capital (that would not have taken place without the AID loans), as well as additional commercial bank borrowing made possible by the AID contribution and the financial contribution to the project made by the end-users. It is believed that if these related sources of financing were also included, the net economic impact would be at least twice as large as the figures suggest.

^{1/} Sugar gets relatively little of the credit (3 to 5% of the total), while bananas are financed by the large fruit companies and are independent of local sources of credit.

TABLE I

SUMMARY OF ECONOMIC IMPACT
OF LAAD ACTIVITIES* TO DATE

	<u>LAAD Consolidated</u>	<u>LAAD-CA</u>
Amount of LAAD investment, Cumulative (in millions of \$) in disbursed funds	\$47.0	\$37.0
Number of Small Farmers that Benefited	31,000	20,000-25,000
Valued Added, per annum (in millions of \$)	N/A	\$67.8
Average Estimated in- crease in Take Home pay by small Farmers, per annum	N/A	\$1,400
Number of Jobs Created (full-time equivalent)	10,000	8,000
Additional Exports (gross) (in millions of \$), per annum	N/A	\$73.5

* Direct LAAD-CA loans only. Excludes impact from other sources of financing to projects having partial AID financing.

- The benefits derived from LAAD-CA loans and investments are very substantial -- 20 to 25 thousand small farmers benefited, \$68.0 million in regional value added, 8,000 new jobs created, \$74.0 million in additional exports generated and an increase in average farmer take-home pay of \$1,400. As indicated above, the benefits would be substantially larger (about 2.6 times) if the impact of the whole project had been measured instead of prorating for LAAD's financial contribution alone.

5. Estimated economic impact of the proposed AID loan

Estimates of the overall economic impact of the proposed project in terms of impact on income, farmers reached, employment and exports on the basis of coefficients^{1/} that are somewhat more conservative than those derived from LAAD-CA's historical experience, are summarized above. The use of more conservative coefficients than those prevailing in the past is indicated owing to the region's current political, economic and liquidity problems. The basic assumptions underlying the economic impact analysis are as follows:

- The \$6 million proposed AID loan to LAAD will not be associated with an additional capital contribution from LAAD shareholders for LAAD-CA as was the case with AID previous loans to LAAD-CA. LAAD does intend to raise \$1.5 million in conjunction with the Agribusiness expansion loan to LAAD-Caribe, and this equity will be utilized for LAAD-Consolidated.

- LAAD has received indications, however, that commercial banks would be willing to contribute a minimum of \$2.0 million to LAAD for use in Central America on the strength of the proposed \$6.0 million new AID loan. This would raise the amount of additional financing (excluding roll-overs) to \$8.0 million.

- End-users are expected to contribute resources of their own as a condition for securing LAAD assistance. In the capital assistance paper for the second LAAD loan (May 1975) it was assumed that \$1 million loaned or invested by LAAD would call forth another \$1.4 million in resources contributed by end-users. Given the current economic and political situation, however, LAAD expects that the matching contribution is not likely to exceed \$.7 (of end-user funds) for every \$1 (in loans received) for established firms (that modernize, reconstruct or expand); and \$1 to \$1 for new industries (as LAAD will insist on a large end-user contribution for the latter). Thus it is assumed in this analysis that every \$1.0 loaned to end users will, on the average, bring forth an additional \$.85 in end-user contributions.

^{1/} Relating LAAD-CA's resources input to its impact on total value added and exports.

.26^{1/}. An income multiplier of 2.0 and a marginal propensity to import of

- No induced investment in other economic sectors as the result of the LAAD-financed projects (i.e., no acceleration effect).

- A marginal capital/output ratio of 1.0 (i.e., every \$1.0 million in investment in the agro-industrial sector generates an increase of \$1 million in total annual value added after the project has been completed and bears full fruit). This ratio is much more conservative than the 1 to 1.8 ratio suggested by actual performance (see above Table 1).

- A ratio of project financing to exports of 1 to 1, i.e., \$1 million in investment in agro-business (financed from all sources) is expected to generate an additional \$1.0 million in net foreign exchange earnings as a minimum (after allowance for additional imports and debts servicing).^{2/}

- One full-time job is create for every \$5,000 invested in the agribusiness sector (mostly on the farm). The 1975 CAP assumed an average cost of \$3,300 per job created.

Conclusions of the model are as follows:

a. Short-term economic impact

The short-term economic impact refers to the effect on income and imports of investment expenditures while the projects are being carried out. On the assumption of an income multiplier of 2.0, the total income effect of the investment expenditures during the implementation period is:

1/ The income multiplier and the marginal propensities to consume, save, tax and import were obtained by calculating the increase in GDP, private consumption, private investment (assumed to be equal to saving), tax collections and imports from outside the region that occurred between 1970 and 1979. Results were as follows: marginal propensity to save .13; marginal propensity to tax .12; marginal propensity to import goods of extraregional origin .26. Multiplier (equal to the reciprocal of the sum of the linkages, e.g., $.13 + .12 + .26 = .51$): $\frac{1}{.51} = 1.96$

2/ This is a more conservative assumption than the one made in the 1975 Capital Assistance Paper, or that could be justified by LAAD's actual performance on the basis of its own evaluation. The latter suggests a LAAD financing to export ratio of 1 to 2, i.e., that \$1.0 million of LAAD financing would be expected to generate \$2.0 million in additional exports.

(total investment X multiplier = increase in GDP)

$$\$15.0\text{^{1/} million} \times 2.0 = \$30.0 \text{ million}$$

Effects on imports from outside the region:

(Increase in GDP X marginal propensity to import = increase in imports.)

$$\$30.0 \text{ million} \times .26 = \$7.8 \text{ million.}$$

b. Long-term economic impact

(1) Impact on value added or GDP

After full completion of the project financed by LAAD, the annual increase in value added by the agro-industrial sector in Central America is projected at about \$15 million on the assumption of a marginal capital/output ratio of 1.0 to 1.0 ^{2/}.

The above only refers to the direct impact on value added in the agro-business sector. However, the income generated will result in increases in demand for intermediate products and consumers goods. Taking account of this multiplier effect, the total impact on income or GDP would be:

$$\$15.0 \text{ million} \times 2.0 = \$30.0 \text{ million.}$$

(2) Impact on imports

On the assumption of a marginal propensity to import of ^{3/} 26, the impact on imports would be as follows: (increase in GDP X marginal propensity to import = increase in imports).

$$\$30.0 \text{ million} \times .26 = \$7.8 \text{ million.}$$

^{1/} \$6.0 million in AID contribution plus \$2.0 million commercial bank loans equal \$8.0 million; plus owner contributions of 85% equals \$14.8 million, round to \$15.0 million. This analysis relates to the impact of the whole project, not just AID's contribution.

^{2/} Investment = 1.0 or additional output = Investment
Additional Output
The derivation of the additional investment of \$14.8 million is explained in the preceding footnote.

^{3/} Marginal propensity to import goods of extra-regional origin over period 1970-79.

(3) Impact on exports

On the assumption that a \$1 million investment in the agro-business sector will generate \$1 million in new exports per year (LAAD-CA's recent historical experience indicates a ratio of \$1 million in investment to \$2 million in additional exports), the projected total \$14.8 million in new investment may also generate about \$15 million in annual additional exports.

(4) Impact on employment

LAAD estimates that it has generated one full-time job for every \$3,500 invested. For projection purposes, we are assuming an average cost of \$5,000 per new job created. On this assumption, the proposed \$14.8 million investment package would generate about 3,000 new jobs:

$$\frac{\$14.8 \text{ million}}{\$5,000} \stackrel{1/}{=} 2,960 \text{ jobs}$$

The above refers to the direct job impact only. However, new jobs will be generated in other industries as a combined result of the need to supply the new enterprises with materials and services and of the expenditures on consumer goods and services by employees whose incomes have been increased. The total increase in employment will depend on the magnitude of the employment multiplier. ^{2/} We might estimate the total employment impact to fall within the range of 4,000 to 6,000 jobs.

It must be admitted that any estimate of the employment impact of the AID loan to LAAD is extremely speculative unless "job generation" is interpreted broadly to include the increase in small farmer income resulting from LAAD's operations. For example, the doubling of a small farmer's annual income could be treated as equivalent to the creation of an additional job. The need to apply this broader interpretation arises from the fact that the major impact of LAAD's lending on the target group may take the form of increased small farmer income rather than employment generation in the traditional sense.

Note that all of the above analysis of macroeconomic impact refers only to the first round of LAAD lending. Actually, LAAD would be able to relend the AID funds several times as the repayment period to sub-borrowers is about a fourth of the maturity of AID's loan to LAAD. The average loan LAAD makes is for a period of five years, while LAAD will have twenty years to repay the AID loan. Thus, in the long run, the cumulative annual economic impact of the AID loan to LAAD in an average year over the project implementation period will be a multiple amount of the impact estimated above.

1/ On a full-time equivalent basis.

2/ It can be assumed to fall within the broad range of 1.5 and 2.0

6. Impact on Small Farmers

While LAAD does not work with farmers directly, its programs have a major impact on small farmers because the processors purchase the materials locally and because LAAD sets as a major condition for sub-lending to processing firms the adoption of mode of operations designed to benefit a large number of small farmers. Moreover, the processing firms are in a much better position to provide effective technical assistance to suppliers than a public institution would be.

The processors have intimate knowledge of the best technology to grow a product under the soil and climatic conditions prevailing in the region, and have a strong self-interest in ensuring producer success in coming up with a sufficient quantity of high-quality product.

The LAAD program has had a substantial impact on small farmer agricultural productivity by permitting them to shift their land from inefficient low-yielding subsistence crops to the growing of cash crops commanding high prices in foreign markets. The case study of ALCOSA illustrates this point. LAAD has estimated that the average small farmer producing raw materials for a processor benefiting from a LAAD loan had his annual income increase by an average of at least \$1,400 per year. The LAAD-CA management insists this is a conservative estimate on the basis of their records. They also estimate that the total number of small farmers that have benefited from LAAD-CA's operations range from 20,000 to 25,000.

On the basis of LAAD's recent performance, an evaluation of the impact of its last AID loan, and a review of LAAD's illustrative project list (shown in Annex F), impact on the target group (after the subprojects reach full fruition) of the proposed \$6 million AID loan is projected as follows:

Average estimated increase in take-home pay be small farmers	\$1500 to \$1800 per annum ^{1/}
Number of small farmers benefited	4000 to 6,000 ^{2/}

^{1/} Compares with \$1,400 estimated by LAAD as the impact of its second AID loan.

^{2/} Based on historical experience, and LAAD's assessment of the second loan.

Number of jobs created (on farms and in processing plants)

4000 to 6,000 1/

7. LAAD's Pioneering role

Impressive as the overall economic effect may be, LAAD's pioneering impact on certain key agro-industries is of even greater importance. Several enterprises in the areas of production, processing and marketing of agricultural products would not have come into being without LAAD's assistance; while others would have been substantially less developed at this time. Following are examples of areas on which LAAD has played a key developmental role:

Fresh and Processed Perishable Foods.

LAAD-CA has placed special emphasis on this general category of activity from the outset of its operations. It has financed the establishment of all four of the region's frozen vegetable plants and has made direct loans to farmers who supply raw material to these plants, as well as indirect loans, through banks, to finance very small farmers who furnish raw material to the industry. Since lack of adequate quantities of high quality raw material has been the single greatest obstacle to the development of Central America's frozen vegetable industry, the processing plants benefiting from LAAD loans have placed major emphasis on development of a reliable source of supplies.

The industry has been most successful in Guatemala. Its sole component in this country is ALSOCA which has been in existence for ten years. The favorable economic impact of ALCOSA (which has received LAAD-CA loans totalling \$518,000) is more thoroughly discussed in connection with the social impact analysis. According to LAAD's records, ALCOSA bought \$3.3 million of vegetables from small farmers in 1980, a volume that is expected to increase substantially when the plant's productive capacity is increased in 1982. The income of these farmers has increased by about 250% as a result of their conversion from the growing of other crops (mainly corn and beans for the domestic market). ALCOSA's exports in 1980 were \$4.2 million and are projected to rise to \$6.7 million in 1982.

Other LAAD loans in the fresh and processed perishable food area include a frozen food plant in Nicaragua, a vegetable freezing plant in Costa

1/ Inclusive of likely multiplier effects. However, we cannot be fully confident that this many new jobs will actually be created above the number of small farms benefited since the economic impact of LAAD's activities on the small farmer target group will include both an income and an employment effect.

Rica, two projects in the vegetable canning area as well as loans to six medium size farmers to produce new raw material for the region's frozen food processors and canners.

Development of the Sesame Industry

Sesame is a crop ideal for small farmers as it grows best on landholdings which are unsuitable for other crops. The crop grows very well on poor quality soils. The technology of cultivating sesame is extremely simple and relatively little technical assistance is required.

LAAD-CA has made six loans to three sesame decortivating companies and to one natural sesame processor. The loans, in Nicaragua, Guatemala and El Salvador, totalled \$1.8 million. The natural sesame processor is located in Guatemala and is a major supplier of semi-processed products to the LAAD-CA financed decorticator in El Salvador.

The financing of a new decortivating plant in El Salvador and substantial expansion of the Guatemalan decortivating plant, as well as working capital assistance provided to the Nicaragua decorticator, have given rise to a substantial increase in demand for the raw material. As a result, the average price per hundred weight to growers increased from \$10.60 in 1972/73 to \$32.00 in 1979/80. New producers have been attracted to growing the product because of relatively assured higher returns compared to the low yields and marketing uncertainty of cotton production, the activity most new sesame growers abandoned to enter the cultivation of the latter crop.

The fact that the world market price for decorticated sesame has increased steadily from \$11.80 in 1965 to \$56.00 (per 100 lbs.) in 1980 has permitted Central American decorticators to pay increasingly higher prices for raw material, in spite of increasing operating costs.

The industry will be the focus of continued LAAD-CA financing because of its strong impact on small farmers and the promising future for the industry in terms of the export market. Moreover, Central America's sesame is generally considered to be one of the world's finest and enjoys excellent acceptance.

Flowers and Other Ornamental Plants

LAAD-CA has made six loans, totalling \$947,500 to four growers of ornamental plants. This is an infant industry in Central America, but one enjoying excellent potential: the facilities financed by LAAD-CA are expected to generate \$2.4 million in foreign exchange in 1983 and jobs for some 400 Central Americans. The four companies are expected to generate more than \$1 million in value added to the C.A. economy, without considering the expansion currently under implementation. LAAD-CA's contribution to the development of these companies constitutes more than half of the total investment.

The industry has ample scope for expansion. Exports from Guatemala and Costa Rica are especially high quality but represent only a

minuscule portion of total U.S. and European consumption of the product (most Central American exports of ornamental plants go to Europe where prices paid are generally substantially higher than in the United States). The technology of the industry is relatively complex, but well within the capacity of many small Central American farmers to learn.

The above are only a few illustration of the pioneering role that LAAD has performed in the Central American region. Other cases include "par boiled rice," essential oils and wood processing.

In conclusion: LAAD's projects have had a significant impact on the incomes and productivity of the small farmers producing the new material for the processing plants. Other favorable effects include employment generation and the increase in exports. A major impact has been in the area of promoting new enterprises and industries in the agricultural field at a time when these enterprises face great difficulties in securing the financing and technical assistance essential to their development, and in some cases, to their survival. The realization of the full potential of the industries that LAAD has helped to establish still lies ahead.

B. FINANCIAL ANALYSIS

1. Demand for Agribusiness Financing

A number of projects which would be eligible subjects for financing have been identified. The analysis is by no means exhaustive, but it is representative of what can be done. Most of the projects which would be financed under the new program are within categories of industries to which LAAD-CA has directed financing in the past. These include frozen and canned food processing, sesame decorticating, essential oil extraction, growing and processing of basic grains, poultry and egg production, hybrid seed production, cut flowers and ornamental plants, milk and dairy products, etc. LAAD has acquired some useful knowledge regarding these industries and has been able to demonstrate that financing given to them has significant positive impact on the key target areas. LAAD-CA also wishes to enter into new types of activities and acquire additional knowledge. These are categories of industries with which LAAD-CA has had little or no experience but which have significant potential for reaching the same rural employment and small farmer targets LAAD has aimed at 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 and certain aspects of the seafood industry. Basic grain seed production, hog breeding and pork processing are also examples of new industries expected to be financed.

The most important and probably most difficult new type of activities is the general category of services, the inadequacy of which constitutes a bottleneck to development. Basic among these are warehousing, distribution and transportation systems.

Most of the projects identified would result in substantial, rapid and direct benefits in terms of heavy rural employment and/or small farmer benefit. 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 payment effect of the program.

The project list does not include all of the projects being considered, and new projects of higher priority may replace a number of these.

The demand study has identified \$29.0 million in new financing needs for 66 projects in 6 Central American countries covering a wide range of agribusiness activities.

The sectorial breakdown of the projects sampled shows a heavy concentration of 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>Activity</u>	<u>Amount</u>	<u>Number of Projects</u>
Food Processing	\$ 4,600	8
Grain Processing	1,000	1
Vegetable oil processing	1,400	3
Non-Food Processing	1,200	2
Meat Products	1,250	2
Basic Grains	2,315	4
Storage and Transportation	1,400	3
Seafood	1,100	3
Seeds	2,000	5
Farm Tools and Machinery	2,100	4
Poultry	1,800	4
Hogs & Cattle	1,420	4
Fresh Fruits and Vegetables	1,000	3
Wood Products	800	3
Dairy Products	1,200	3
Flowers and Plants	1,000	5
Agriculture	1,400	5
Other	2,000	4
	<u>\$28,985</u>	<u>66</u>

2. Background and Analysis

LAAD's performance under AID's first 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:

	<u>Year Ended October 31</u> (\$ 000)			
	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
<u>Balance Sheet</u>				
Total Assets	18,115	20,106	29,974	32,362
Total Liabilities	12,120	13,397	22,669	24,510
Stockholders Equity	4,941	6,709	7,305	7,852
Retained Earnings	894	1,300	1,896	2,442
<u>Income Statement</u>				
Total Income	1,493	1,869	2,746	3,518
Total Expenses	1,118	1,358	2,041	2,809
Net Income	374	511	704	709
Provision for losses	169	291	498	518
<u>Ratios</u>				
Current Assets/ Current Liabilities	.98/1	2.3/1	2.12/1	2.4/1
Debt/Equity	2.02/1	1.99/1	3.10/1	3.12/1

Of the almost \$32 million in total assets, \$30.3 million are sub-loans to agribusinesses and \$1.0 million represent equity investments in eight sub-projects. The largest portion of \$24.5 million in total liabilities is represented by \$15.9 million in outstanding loans to AID. The most recent AID-Caribe loan (538-T-014) had not yet begun disbursing at LAAD's year end, thus it is not reflected in these figures.

As of 10/31/80, LAAD had \$4.7 million in unsecured long term loans payable and an additional \$3,450,000 in loans due or renewable within one year to private banks. Interest rates on these loans and lines of credit varied, but were not in excess of 1-1/8% over the London Interbank Offered Rate (LIBOR).

Of particular interest is LAAD's allowance for bad debts. Charges against income 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 to allow for increased country risks elsewhere. A summary of the status of LAAD's portfolio on those countries follows:

- In Nicaragua, all projects continue to operate. Two, both classified by the Government under "Category One" (loans to Government agencies or loans guaranteed by the Government) have been renegotiated and formalized under a single loan agreement with the Government of Nicaragua. A cash payment of \$41,931 was made on delinquent interest and the balance of the latter was capitalized. The face amount of the new loan is \$1,076,931. The interest rate is 10% per annum and the term is 13 years. Principal payments are scheduled on an ascending basis with 2/3 payable in the 12th and 13th year. This accounts for close to half of LAAD-CA's exposure in Nicaragua.

The balance of \$1.1 million is being rescheduled now. The negotiations are likely to be prolonged, and LAAD-CA's budget for 1980 - 1981 assumes no further payments during this year. The Government will be hard-pressed to make interest payments on the rescheduled portion this year and the negotiation of the other categories could not be completed before 1982. A resumption of payments is anticipated in fiscal 1982, but at lower annual amortizations than those provided for in the original loan agreements.

- In El Salvador, despite a recent interruption in payments, LAAD-CA is presently current with most projects. LAAD-CA 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 \$200,00 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-CA 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-CA from meeting all of its interest and principal payments to its creditors on time and the incorporation of South America projects into LAAD-CA could provide income, causing its period of illiquidity to be considerably shortened.

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 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. Reserve needs would be lessened if substantial activity can be developed in Chile, Peru and Ecuador.

Problems due to shortage of foreign exchange are also beginning to emerge in Costa Rica. Loan payments from Costa Rica are current as of May 1981. However, in the case of a few loans, LAAD is presently negotiating arrangements which will involve reschedulings for six additional years of amortization.

3. Projections

Projections for 1981-1985 on the basis of a new \$6 million AID loan and \$6 million in private borrowings are summarized below for LAAD-Consolidated; detailed projections for both LAAD-Consolidated and LAAD-CA are contained in Annex F together with assumptions.

	(\$000)				
	<u>Year Ended October 31</u>				
	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
<u>Balance Sheet</u>					
Total Assets	39,250	48,900	58,300	66,500	73,900
Total Liabilities	30,180	38,300	46,510	53,190	58,860
Stockholders					
Equity	9,070	10,600	11,790	13,310	15,040
Retained Earnings	3,110	4,070	5,260	6,780	8,510
<u>Income Statement</u>					
Total Income	3,970	5,030	5,960	7,000	7,990
Total Expenses	2,460	2,930	3,500	4,180	4,860
Reserve & Depreciation	610	900	1,000	1,000	1,100
Net Income	900	1,200	1,460	1,820	2,030
<u>Ratios</u>					
Current Assets					
Current					
Liabilities	2.3/1	2.2/1	1.7/1	1.7/1	1.6/1
Debt/Equity	3.0/1	3.2/1	3.5/1	3.5/1	3.4/1

An objective of this loan is a financially stronger organization. This will be accomplished by a new AID loan and additional private bank borrowings as well as LAAD's

diversification into South America. By fiscal year end of October 31, 1985, LAAD's total assets would grow to almost \$74 million and net income is projected at \$2.0 million. LAAD's debt equity ratio will be 3.4/1 and its current ratio 1.6/1, return on net worth will be about 9%. Cash surplus after dividends ranges from \$3.1 to \$5.1 million per year and provides sufficient cushion to cover repayments of principal and interest on AID loans and provide private borrowings. Further liquidity levels are adequate (as reflected by the good current ratio) and the 3.4/1 debt/equity ratio represents a conservative position considering the country risks faced by IAAD. Other development banking concerns have ratios as high as 15/1.

4. LAAD-CA Interest Rate Policy

LAAD-CA initiated operations in 1971 with a single interest rate policy, charging 9% on all of its loans. Over the next few years it became apparent that this flat rate policy was not appropriate. World money rates were much lower at that time, but the rate was still low in relation to other sources. LAAD antagonized some commercial banks and non bank financial institutions (in spite of the fact that none would have considered financing the type of borrower LAAD dealt with). Further, LAAD's borrowers may not have been helped, as sub-projects were often judged on the basis of soft (subsidized) rates rather than on a commercially viable basis using market rates of interest.

LAAD's current policy is to charge rates which are considered to be appropriate to a borrower's capacity to pay and to existing norms in local and international money markets. Charging of moratory interest is a practice LAAD has avoided for most of its 10 years of existence, though it is a normal practice in Central America. It started doing so about a year and a half ago. Collections improved dramatically and immediately.

The present portfolio consists of loans at interest rates ranging from 9% (rescheduled remnants of the first AID program) up to 3% over prime (or Libor). These rates fluctuate and have been, on occasion, as high as 23% when prime reached 20%.

LAAD-CA must continue to be flexible in its interest rate policy, applying rates in consideration of the needs of individual borrowers, practices in the countries in which

LAAD operates, the maintenance of its image and its own financial stability. LAAD must continue to cover its costs of operation (which are significantly higher in relation to both dollar value of portfolio and profits than those of a commercial bank) It must maintain high reserves and show profitability which will attract commercial bank lending to a company over 70% of whose portfolio is in Central America, an unattractive feature to commercial lenders.

It should be noted that the successful projects which pay promptly subsidize those which cause problems. It would be equally true to say that, thusfar, successful countries are subsidizing unsuccessful ones.

C. Social Analysis

Beneficiaries of the present project will include small and medium sized farmers as well as significant numbers of landless peasants. The most substantial benefits will accrue to the farmers; but the landless will find increased employment opportunities stemming from the project's promotion of labor intensive fruit and vegetable production.

Basic problems in Central American Agriculture

Rural Central America has long been marked by the dual nature of commercial (export) and traditional agricultural economies. The export sector of Central American agriculture is characterized by extensive plantations incorporating the most fertile lands, a high degree of mechanization and efficient organization, access to credit, and resulting productivity. The sector comprising traditional agriculture - producing mostly, corn, beans, rice, sorghum, and other crops for the domestic market - is characterized by tiny landholdings, poorer soils, archaic methods of production, extremely limited access to credit, and very low levels of productivity. This traditional sector encompasses over 50 percent of the population of Central America. However, since political power in the region has traditionally resided in the hands of the large landowners whose economic interests have been geared to the export market rather than to the internal market, little has been done in the past with respect to raising the productivity and the living standards of the great bulk of the rural population.

While there are many factors contributing to the situation of stagnation in the traditional agricultural sector, the most fundamental is land tenure. It has been estimated that approximately three quarters of all farms in Latin America are less than 50 acres in size, and that together they account for less than 4 percent of the total arable land. In contrast, 1.5 percent of all farms exceed 2,500 acres and account for approximately 65 percent of the land suited for cultivation.

This pattern of very large estates -- latidundia -- on the one hand, and tiny holdings -- minifundia -- on the other, is typical of Central America. The striking similarity among the countries is the high percentage of small farm unity at one end of the scale and the high percentage of total land concentrated in a few holdings at the other. In three of the countries, 55 to 85 percent of all units are smaller than 5 hectares; as a Central American average, 40 percent or more of the arable land is held by about 1 percent of the landholders. In Guatemala, over 27 percent of the farm units are less than one hectare in size, and 81 percent are less than 5 hectares. In El Salvador, almost half the farms are smaller than 1 hectare; approximately 86 percent are less than 5 hectares in size.

Beyond this, the absence of adequate marketing outlets has generally kept production on small farms low and has proven a disincentive to crop diversification. In numerous cases throughout Central America, small

farmers have been induced to plant non-traditional crops for commercial sale, only to find that they cannot be marketed.

The present project, while unable to solve the problem of land distribution directly, aims at the gap in financial and technical aid to small farmers; and attempts to create new marketing channels for their produce. Agribusiness, by its very nature, seeks to establish a coherent system in which production, processing, transport, storage, financing, and marketing are all integral elements. Because these various elements are thoroughly interrelated and essential to the workings of the system, and the system stands or falls on this principle, it behoves managers to insure that all links in the chain are adequately serviced. The profit incentive of private sector enterprises which is lacking in the case of public sector programs is generally strong enough to ensure that sufficient energy will be devoted to such considerations.

Alimentos Congelados S. A. (Guatemala): A Case Study

Few thorough evaluations of agribusiness enterprises in Central America have been carried out, and therefore it is impossible to make generalizations regarding the degree to which they improve the lot of small farmers. Whether or not ALCOSA's experience is typical is not certain. However, it does present an example in which small farmers have benefitted, and may spell out the course, along general lines that can be achieved in the present project.

In 1980, an impact evaluation was done of Alimentos Congelados S.A. (ALCOSA), a subsidiary of Hanover Brands involved in purchasing and freezing vegetables in Guatemala, which was partially funded by LAAD (Kusterer, Estrada de Batres, Zuya Cuxil 1980). ALCOSA began as little more than a household business in 1971, and gradually increased its capacity to the point where it purchased over seven and a half million pounds of cauliflower, broccoli and brussel sprouts in the first six months of 1980 from more than 2,000 farmers.

During the first years of operation, ALCOSA had three principal types of farms supplying its raw materials: its own farms, middle sized farms run by agricultural entrepreneurs, and small farms in the highlands. In the beginning, ALCOSA's own farms were seen as the most important providers of produce; but as things developed, the company began to rely more and more heavily on outgrowers, and by 1980 all of ALCOSA's farms were phased out. The first type of outgrower courted by ALCOSA was the medium sized commercial farmer. This group of sophisticated farmer was the easiest group for ALCOSA to persuade to plant new, non-traditional crops with modern techniques, but it became evident over time that these farmers could not be counted on for a regular supply of produce. Most of them had no previous experience with vegetable production, and none had cultivated the crops ALCOSA wanted. In some cases, productivity was lower than anticipated, and actually contributed to drop in farmers' incomes. In other cases, the proportion of the crop which met ALCOSA's quality standards was low, and disputes over these standards and

ALCOSA's discounts for poor quality were common place. Also, medium sized farmers had access to other market outlets, and thus could not be counted on as steady suppliers to ALCOSA.

Meanwhile, experience with small farmers in the highlands (begin on a pilot basis in 1976) was proving more satisfactory, and these purchasing operations have been continuously expanded. As a culmination of this switch in supply sources, by 1980, 95 percent of all cold weather crops were purchased from small farmers in the highlands. Okra, unsuited for production in the highlands where small farmers are concentrated, continues to be produced by middle sized farmers elsewhere.

On the processing side of the operation, women have benefitted overwhelmingly. As a matter of deliberate company policy, ALCOSA prefers to hire women for its in-plant positions. This is of course traditional in the food processing industry, but the policy is also a result of observations of the relative reliability, dependability and job satisfaction of male and female workers made by ALCOSA's management early in its Guatemala operations. Employees of ALCOSA and other plants in the area earn considerably more than most local workers employed in farm, domestic, or small business operations. The women employed directly by ALCOSA, therefore, earn as much as the highest paid male blue collar workers in the area, and considerably more than female domestic workers or market traders, the only other two paid occupations available to women in the area. ALCOSA and the other plants that hire women on these terms are thereby transforming local attitudes about the nature of women's work and women's just compensation.

Consequences of the project: While ALCOSA's operation had an adverse effect on local producers in 1980 due to oversupply, numerous benefits have resulted directly from the project. The use of agricultural production credit, previously non-existent in these villages, is now common practice among almost all growers connected with the company, as a result of ALCOSA's credit sales of farm inputs. Investment of both inputs and labor per acre of vegetables has increased; and participating farmers have learned a good deal from the experience. Knowledge of export processing requirements; greater sophistication regarding contractual, legal and economic aspects of farmer-processor relations; familiarity with new crops and new varieties of previous crops; more sophisticated consumption of fertilizers, insecticides, and other chemical inputs are all aspects of this experience. The scale of small family farm enterprises has increased, in terms of required labor, investments, quantity of production, and, in some cases, acreage planted.

Incomes of participant farmers increased substantially prior to 1980. In several of the villages where ALCOSA worked farmers have been able to participate in commercial agriculture almost as profitably as the larger farmers nearby. Likewise, the majority of the poorest families no longer depend on farm labor jobs for their income, the supply of farm labor has decreased sharply, and daily wages have increased.

This rise in income has allowed the poorest participant families to meet their basic needs more satisfactorily and to permit their children to attend school instead of seeking paid employment. The upper stratum of poor families in half of the villages involved with ALOSA have used their increased incomes to undertake several sizeable investments, such as building houses, setting up stores, and purchasing land and pick up trucks.

Through contact with ALCOSA, farmers and their families have come to hope and believe that expanded commercial production of vegetables is their key to economic advancement. Through this route, they hope to remain in their preferred occupation -- independent farming -- and to enjoy the economic gains that previously were possible only through migration. These small farmers want to remain independent farmers, but they no longer accept the cycle of subsistence poverty that has in the past trapped those in this occupation. Whether they are satisfied with ALCOSA or not, the farmers seek to continue marketing large quantities to some commercial purchaser. If they can help it, they have no intention of returning to the production of small quantities for sales to local markets.

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 be LAAD-CA which is headquartered in Guatemala City. LAAD-CA has a staff of five, including its President, a loan analyst, a comptroller and a secretary in Guatemala City, and a loan analyst in Managua. The LAAD-CA staff is responsible for subproject identification, prefeasibility analysis and arranging technical reviews as needed. The analyst in Managua focuses almost exclusively on "problem" loans and on turn-around situations.

2. Proposed Organization

LAAD does not propose to alter its general style of operations in order to undertake this new AID program. However, some expansion will be required to manage new investments and monitor ongoing projects. LAAD anticipates employing one new analyst for the Central American expansion and another analyst to pursue investment opportunities in South America.

The administrative staff based in Miami will 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 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.

A new organization chart is included as Annex G.

E. ENVIRONMENTAL ANALYSIS

The initial environmental examination (IEE) which recommended a negative determination was approved in June 1981. The IEE discussed the nature and potential impact of agribusiness subprojects of the type likely to be financed by LAAD and concluded that impacts were generally negligible or minor.

As part of the subproject 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.

IV. IMPLEMENTATION ARRANGEMENTS

A. Project Management

1. Role of LAAD

a. Review and Approval of Subprojects by LAAD-CA:

LAAD-CA will be responsible for project identification and development. 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 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-CA will follow the following sequence in its step-by-step analysis of a potential subproject:

-- Review of initial questionnaire prepared by sponsors of the subproject, including reference checks. Annex H, contains a sample questionnaire. This review will identify major issues and raise questions LAAD-CA may have regarding: clarification to certain items; additional financial analysis required; technical data needed; subproject 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-CA 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-CA will proceed with the detailed investigation of the necessary items.

-- On proposals subjected to intensive investigation, LAAD-CA 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-CA will request disbursement from AID.

-- LAAD-CA will advise the sponsor by a commitment letter. After the provisions of the letter have been agreed to in writing by the sponsor, LAAD-CA 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-CA 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-CA Project Implementation

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

LAAD-CA 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 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-CA 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 subproject's effects on the target group and agribusiness development objectives will be included in the status progress reports prepared by LAAD-CA 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 subproject as shown in the completed Project Assessment Form.

In addition to using regular site inspections in the effective supervision of its projects, LAAD-CA will also supervise its projects indirectly by maintaining close relationships with the business community in Central America.

2. Role of ROCAP

a) Project Management Responsibilities:

The loan will be managed by ROCAP. The Director will have general managerial responsibility for loan implementation. ROCAP's Capital Development Officer and Rural Development Officer (Project Manager) share responsibility for; a) monitoring loan activities, b) visiting project sites, c) assuring compliance with the Loan Agreement, d) evaluating the program, and e) reporting on a continuing basis to AID/W. Fiscal control of loan funds will be the responsibility of the ROCAP Controller.

ROCAP's responsibility in implementing the project will include, but is not necessarily limited to the following:

- a) Exercising approval rights for proposed projects;
- b) Insuring compliance with Loan Agreement;
- c) Inspecting and monitoring of project activity; and
- d) Financial control of loan funds.

Because of the growing number of projects spread throughout Central America, on-site inspections are conducted by various ROCAP officials who may be in the project area for other reasons. The primary responsibility for insuring regular on-site project monitoring rests will be the Project Manager. Inspection reports will be made and circulated to ROCAP and LAAD officials as appropriate.

b. Review and Approval of Subprojects:

All LAAD-CA projects regardless of size or whether or not they are AID financed, will be submitted to ROCAP which will provide a copy to LAC/DR for information purposes. All projects will be reviewed by ROCAP prior to disbursement. However, ROCAP will approve only those subprojects in which the proposed use of AID funds exceeds \$500,000. The information included in this documentation will consist of the following:

- 1) LAAD-CA Investment Document: full technical, financial, and economic description and justification of the project;

- 2) LAAD-CA 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-CA client as soon it is available; and
 - 4) A complete Project Assessment Form (Annex H)
- c. Project Management Plan:

Reports

- 1) LAAD-CA will submit a Quarterly Status Report to ROCAP. 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 ROCAP/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-CA 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;
- 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 subproject results can at best be only estimates, since the full scale analysis of the potential for a subproject to have positive benefit incidence on the target group and other objectives will not be undertaken until subproject proposals are operational. Therefore, the best mechanism to be used for evaluating the degree to which subprojects are actually producing the benefits intended is the review of completed and revised Project Assessment Forms on each subproject, together with additional data included on these subprojects 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 groups will be evaluated by a selective examination of various subprojects two to two and one half years after they have become operational. This elapse of time will be required to allow subproject growth and maturity as well as development of linkages to the producers and markets. Some subprojects 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 subprojects 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 an in the amount of the individual subprojects. For example, following review and approval of a subproject LAAD will submit a voucher to AID requesting disbursement of the total amount of the subproject. Upon receipt of the AID funds, LAAD then disburses to the subproject 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 subproject as discussed in the section on Project Management.)

It is expected that AID funds will be utilized for those subprojects 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) This means that disbursements of AID funds cannot effectively be matched against the same amount of disbursements of private bank funds at any one point in time. This is because at any one point LAAD may have a greater number of fixed rate subprojects approved than floating rate subprojects. 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 subprojects so as to ensure against potential disequilibrium. The proposed \$2 million reviews will monitor these fundings flows. 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 private 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 941i of the AID Geographic Code Book and the countries of the Central America and Panama 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 Central American subsidiary of Borrower to assure that such proposed activities are financially and technically sound;
2. a plan for the evaluation of proposed subproject activities by the Central American 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 Central American subsidiary of Borrower setting forth the eligibility criteria and procedures each will follow in authorizing and administering investments and subloans;

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

Note: Conditions precedent of previous loans to LAAD have required certified copies of corporate charters, by laws and operating policies as well as a plan for periodic audit of subloans. These are on file in ROCAP and will not be required for this loan.

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 has commitments from private banking sources totaling not less than \$4,00,000.

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 has commitments 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"): Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica and Panama.

B. Except as AID otherwise agrees in writing, neither Borrower nor any subsidiary of Borrower shall:

1. utilize AID loan funds or any repayments of Principal from subloans made from AID loan funds to pay administrative or operating expenses of Borrower or of any subsidiary of Borrower;

2. permit AID funds to be used to finance any subproject or to make subloans to any subborrower in excess of the equivalent of five hundred thousand United States dollars (\$500,000);

3. 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;

4. maintain a reserve for bad debts of less than four percent (4%) of its total subloan portfolio;

5. appoint as manager of Borrower's Central American subsidiary persons whose appointments have not been approved in advance by AID;

6. declare or pay dividends on either common or preferred shares.
7. incur any indebtedness which would enjoy a position superior to the obligation incurred under the AID Loan;
8. amend or modify its corporate charter, b laws or operating plans or undergo any type of corporate reorganization without prior approval of AID;

C. Repayments of Principal from AID-funded subloans may be used only for those purposes for which AID funds were originally made available.

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

E. 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.

F. Borrower will utilize a minimum of \$2 million of the funds raised from private banking sources for agribusiness investments in Eligible Countries.

Lastly, during negotiations of the loan agreement with LAAD, ROCAP intends to discuss a provision whereby LAAD would covenant to maintain its planned levels of agribusiness lending to Central America as forecast in its Balance Sheet projections (Annex F, Exhibit 3 of PP).

LATIN AMERICAN
AGRIBUSINESS
DEVELOPMENT
CORPORATION S. A.

ANNEX A

808 ALHAMBRA CIRCLE, SUITE 905, CORAL GABLES, FLORIDA 33134
TEL. (305) 416-1311 TELEX-510640 CABLE-LATDEV COBL

May 20, 1981

Mr. Marshall Brown
Associate Assistant
Administrator
Office of Development
Resources
Latin American Bureau
A.I.D.
2248 New State Building
Washington, D.C. 20523

Dear Mr. Brown:

On behalf of the Latin American Agribusiness Development Corporation, I would like to propose a \$29 million program of agribusiness development in Central America. This program would be funded as follows:

AID	6,000,000
Banks	12,240,000
Reflows	18,700,000
Earnings and Reserves	<u>3,640,000</u>
Total	40,580,000

Minus Debt repayment to:

AID	2,100,000
Banks	9,580,000
Net Outflows	28,900,000

In addition, LAAD would borrow at least \$4 million to finance agribusiness projects in South America, thereby bringing total LAAD financing under this program to over \$33 million.

This program is small in relation to the present needs of the agribusiness sector in Central America, but we should be able to make a significant impact through careful project selection. Conditions in Central America are much more difficult than at any time in recent memory. We expect to support a number of new

Mr. Marshall Brown
AID

May 20, 1981
Page # 2

agribusiness projects, but in some cases we would propose to provide working capital funding to rehabilitate companies weakened by economic and political uncertainties. These uncertainties have caused international commercial banks to cut back their lending substantially to the region as a whole. As a result, credit conditions are extremely tight. Despite these adversities, we are confident of being able to carry out the entire program over a three year period.

Based on past experiences, we would anticipate that total investment from all sources in this program would approach \$60,000,000 over a three year drawdown period.

We have prepared a market survey of possible projects as well as a five year financial forecast for LAAD (consolidated) and LAAD de Centroamerica, all of which will be sent to you under separate cover.

As part of the program, we will hire one additional project developer in Guatemala City, one controller in Coral Gables and one representative in South America.

Should you have any questions, please contact me or Thomas Mooney in Guatemala.

Sincerely yours,



Robert L. Ross
President

RLR:tl

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 1981 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? Not applicable
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? Not applicable

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 contributed 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.)

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 Central American 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?

Technical assistance will be furnished on a subproject-by-subproject basis. The facilities and personnel of other Federal agencies will not be used.

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?

4. FAA Sec. 636(1). Is financing not permitted to be used, without waive, for purchase, sale, long term lease, exchange or guaranty of motor vehicles manufactured outside the U.S. **Yes**

5. Will arrangements preclude use of financing:

a. FAA Sec. 104(f). **Yes**
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?

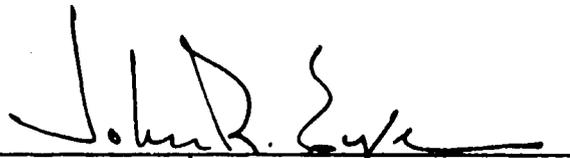
b. FAA Sec. 620(g). **Yes**
To compensate owners for expropriated nationalized property?

- 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 F/A 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**

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

I, John P. Eyre, the Principal Officer of the Agency for International Development in the Regional Office for Central America and Panama, having taken into account, inter alia, the maintenance and utilization of projects in the Central America and Panama (CAP) Region previously financed or assisted by the United States, do hereby certify that, in my judgement, the Latin American Agribusiness Development Corporation has both the financial capacity and human resources capability to effectively implement the proposed Agribusiness Employment/Investment Promotion Loan Project.

This judgement is based upon the project description and analysis as presented in the Agribusiness Employment/Investment Promotion Project Paper and is subject to the conditions imposed therein.



John R. Eyre
Acting Director

Date: Sept 16 1981

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

ASSISTANT
ADMINISTRATOR

ANNEX D

PROJECT AUTHORIZATION

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

Name of Project: Agribusiness Employment/Investment
Promotion

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 three 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 expansion of private agribusiness investments in Central America (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 balanced 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 94i, 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 Central American 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 Central American 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 Central American 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 Central American subsidiary of LAAD setting forth the standards and procedures each will follow in providing technical assistance to clients;

(e) A statement by LAAD and any Central American subsidiary of LAAD setting forth the companies' policies with regard to a reserve for bad debts and an indication of its financial targets for increasing the reserve over the next three years.

Acting Assistant Administrator
Bureau for Latin America
and the Caribbean

Date

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p><u>Goal</u></p> <p>To improve the standard of living of the Central American poor.</p> <p><u>Sub-Goal</u></p> <p>To stimulate economic and agricultural growth, create employment and increase rural incomes.</p>	<p>1. Health improvements noted due to increased income and consumption of more nutritional products.</p>	<p>Surveys</p>	<p>Increased incomes will be spent on more nutritional food.</p>
<p><u>Purpose</u></p> <p>To expand private agribusiness investments in Central America</p>	<p>1. Increased number of farmers selling produce to processors.</p> <p>2. Increased income to beneficiary groups.</p> <p>3. Increased direct and indirect employment.</p> <p>4. Increased production and productivity due to new land in production.</p> <p><u>End-of-Project Status</u></p> <p>1. At least 23 sub-projects financed by LAAD in variety of agribusiness-related endeavors.</p> <p>2. LAAD strengthened institutionally by additional staff and financially by diversifying into S.A.</p> <p>3. \$6 million in private bank borrowings attracted to agribusiness sub-projects (\$2M for Central America)</p> <p>4. \$6.8 million in equity or loans invested by owners or local banks in agribusiness sub-projects.</p>	<p>LAAD reports. Surveys of beneficiaries.</p> <p>LAAD reports. Sub-project evaluation.</p>	<p>Favorable investment climate continues.</p> <p>Favorable exchange is available for sub-loan repayments. Small farmers willing to produce for the sub-projects.</p> <p>Private banking system lends monies to LAAD and to sub-project sponsors.</p>

	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p><u>Outputs:</u></p> <ol style="list-style-type: none"> 1. Sub-project identification, promotion and development 2. Technical assistance provided to sub-projects. <p><u>Inputs:</u></p> <ol style="list-style-type: none"> 1. AID loan of \$6 million. 2. Private bank borrowings of \$6 million. (\$2M for Central America. 3. Sub-borrower investments of \$6.8 million. 	<ol style="list-style-type: none"> 1. LAAD sub-projects financed. 2. LAAD staff or sub-contractors provide assistance. <p>Disbursement of funds over three year period.</p>	<p>Disbursement records.</p>	<p>Funds available on timely basis.</p>

ILLUSTRATIVE LIST OF PROJECT POSSIBILITIES
SUBMITTED BY LAAD-CA

<u>CENTRAL AMERICA</u>		
<u>Costa Rica</u>		
<u>SPONSOR</u>	<u>INDUSTRY</u>	<u>AMOUNT LAAD FINANCING</u>
American Flower Corp.	Cut flower and fern production	\$ 200,000
American Flower Corp.	Tree nursery	100,000
Foliage	Ornamental plant production	100,000
Katojeke (Ginger)	Cultivation of vegetables and spices	500,000
Rico Tico	Processing of snack foods from coconut	200,000
Central Agrícola	Seed production	600,000
Conservas del Campo	Production of canned fruits and vegetables	1,000,000
Dos Pinos	Milk and milk products processor	500,000
Cinta Azul	Manufacture of pork products	500,000
Plumrose	Pork processing	<u>750,000</u>
	TOTAL	<u>\$4,450,000</u>
<u>El Salvador</u>		
Agrícola Salvadoreña	Poultry production	300,000
Procesadora Salvadoreña	Sesame decorticating	400,000
Cristiani, S.A.	Seed production	300,000
Arrocera Sn. Francisco	Rice production	500,000
Mardones	Small agricultural equipment manufacture	1,000,000
Productos Alimenticios	Processing of annatto and balsam for export	600,000
Empresa Cocotera	Coconut oil processing	400,000

PROJECT SUMMARY
El Salvador (Contd).

<u>SPONSOR</u>	<u>INDUSTRY</u>	<u>AMOUNT LAAD FINANCING</u>
Cooperativa de Colmineras	Honey production and export	200,000
Cordelera Salvamex	Henequen processing for export	1,000,000
Cooperativa La Calzada	Diversified agricultural cultivation	200,000
Cooperativa San Isidro	Diversified agricultural cultivation	200,000
Cooperativa Tutulepeque	Diversified agricultural cultivation	200,000
Productores de Bálsamo	Balsa wood exporters	100,000
CLARISA (Cooperative)	Cotton cloth for export	200,000
Arraya, S. A.	Shrimp processing	500,000
Mariscos, S. A.	Shrimp processing	<u>500,000</u>
	TOTAL	\$6,600,000
<u>Guatemala</u>		
APAESA	Growing of essential oil grasses and oil extraction	800,000
Promotora Agrícola Básico	Cultivation of fruits and vegetables	100,000
Xelac	Cheese Products	300,000
Industrias Sésamo	Sesame decorticating	500,000
To be identified	Small machinery manufacturing	400,000
Inaflora	Ornamental plant cultivation	400,000
Agro Inversiones	Ornamental plant cultivation	200,000
Finca "Panama"	Tea cultivation (small tea grower program)	600,000
ALCOSA	Frozen food processing	500,000

PROJECT SUMMARY
Guatemala (Contd).

<u>SPONSOR</u>	<u>INDUSTRY</u>	<u>AMOUNT LAAD FINANCING</u>
To be determined	New vegetable freezing plant	500,000
Finca Armenia	Cardamom growing & processing	200,000
Wilmeth, S. A.	Rice and corn seed production	500,000
Molinos Modernos	Wheat growing and milling	<u>1,000,000</u>
	TOTAL	\$6,000,000
<u>Honduras</u>		
Hermacasa	Manufacture of farm tools	200,000
La Corona	Manufacture of small agri- cultural equipment	500,000
Leche y Derivados, S. A.	Milk and dairy products	400,000
Mejores Alimentos	Canned food production	600,000
Granja Avila	Egg production	200,000
To be determined	Grapefruit cultivation	400,000
Alcon	Processing of corn-based animal feeds	800,000
COHDEFOR	Gum rosin processing	300,000
CONADI	Warehousing	<u>750,000</u>
	TOTAL.	\$4,150,000
<u>Nicaragua</u>		
ATCHEMCO	Production of wood rosin, turpentine & pine oil	400,000
Tip Top	Poultry and egg production	300,000
Mántica Berio	Sesame decorticating	200,000
Ifrugalasa	Canned fruit and vegetable production	700,000
Prosan	Manufacture of sanitary items from reject cotton	200,000

PROJECT SUMMARY
Nicaragua (Contd).

<u>SPONSOR</u>	<u>INDUSTRY</u>	<u>AMOUNT LAAD FINANCING</u>
Inpornicsa	Hog breeding and pork production	400,000
Hielera Sequeira	Ice production for use by fishermen and market stalls	100,000
Amolonca	Frozen vegetables production	500,000
Funde	Small loans to small agricul- turalists	500,000
Hercasa	Insecticide Production	<u>500,000</u>
	TOTAL	\$3,800,000
<u>Panama</u>		
La Castellana S.A.	Pork processing	800,000
Fiduciaria Administra- tiva	Refrigerated warehouse	250,000
Grupo Hernandez	Warehouse	400,000
Cia. Agrícola Industrial	Hogs	100,000
Tesko S.A.	Rice	315,000
Punta Los Micos	Cattle	120,000
Avipecuaria Industrial S.A.	Broilers	1,000,000
Central Agrícola S.A.	Grain processing	<u>1,000,000</u>
	TOTAL	\$3,985,000
	GRAND TOTAL	\$28,985.000

ANNEX F
Exhibit 2LAAD CONSOLIDATED
ANNUAL PROFIT AND LOSS STATEMENTS

(US\$'000)

<u>INCOME</u>	<u>1980/1981</u>	<u>1981/1982</u>	<u>1982/1983</u>	<u>1983/1984</u>	<u>1984/1985</u>
Interest Earned on Agribusiness	3,730	4,540	5,440	6,450	7,420
Interest Earned on Non-Agribusiness	70	200	200	200	200
Dividend Income	20	60	80	100	120
Closing Fee and Other	<u>150</u>	<u>230</u>	<u>240</u>	<u>250</u>	<u>250</u>
	3,970	5,030	5,960	7,000	7,990
<u>INDIRECT EXPENSE</u>					
Interest Expense	<u>1,630</u>	<u>1,910</u>	<u>2,370</u>	<u>2,920</u>	<u>3,460</u>
Gross Profit	2,340	3,120	3,590	4,080	4,530
<u>OPERATING EXPENSES</u>	<u>830</u>	<u>1,020</u>	<u>1,130</u>	<u>1,260</u>	<u>1,400</u>
<u>OPERATING PROFIT</u>	1,510	2,100	2,460	2,820	3,130
<u>NON-OPERATING EXPENSES</u>					
Reserve and Depreciation	<u>610</u>	<u>900</u>	<u>1,000</u>	<u>1,000</u>	<u>1,100</u>
<u>NET INCOME</u>	900	1,200	1,460	1,820	2,030
<u>DIVIDENDS TO SHAREHOLDERS</u>					
Preferred	(150)	(170)	(180)	(190)	(190)
Common	<u>(50)</u>	<u>(70)</u>	<u>(90)</u>	<u>(110)</u>	<u>(110)</u>
<u>RETAINED EARNINGS</u>	<u>700</u>	<u>960</u>	<u>1,190</u>	<u>1,520</u>	<u>1,730</u>

ANNEX F
Exhibit 2

LAAD CONSOLIDATED BALANCE SHEET

AS OF OCTOBER 31

(US\$'000)

<u>A S S E T S</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
<u>Current Assets:</u>					
Cash	80	110	110	110	110
Time Deposits	1,700	1,700	1,700	1,700	1,700
Long Term Loans (Current Portion)	8,890	9,700	10,800	12,100	12,900
Interest and Other Receivables	<u>1,110</u>	<u>1,310</u>	<u>1,540</u>	<u>1,660</u>	<u>1,770</u>
	<u>11,780</u>	<u>12,820</u>	<u>14,150</u>	<u>15,570</u>	<u>16,480</u>
<u>Long-Term Investments:</u>					
Equity in LAAD Marketing	100	100	100	100	100
Equity Investment in Other Companies	1,150	1,350	1,650	1,650	1,850
Agribusiness Loans	<u>26,100</u>	<u>34,500</u>	<u>42,300</u>	<u>49,100</u>	<u>55,400</u>
	<u>27,350</u>	<u>35,950</u>	<u>44,050</u>	<u>50,850</u>	<u>57,350</u>
<u>Other Assets:</u>					
Organization Expense (Net)	10	10	10	10	10
Furniture and Fixtures (Net)	30	25	25	25	25
Other	<u>80</u>	<u>95</u>	<u>65</u>	<u>45</u>	<u>35</u>
	<u>120</u>	<u>130</u>	<u>100</u>	<u>80</u>	<u>70</u>
TOTAL ASSETS	<u>39,250</u>	<u>48,900</u>	<u>58,300</u>	<u>66,500</u>	<u>73,900</u>
 <u>L I A B I L I T I E S</u>					
<u>Current Liabilities:</u>					
Accrued Interest	330	590	740	840	960
Short Term Loans	2,380	2,210	2,670	2,650	3,320
Long Term Debt (Current Portion)	1,200	1,750	3,200	4,100	4,700
AID (Current Portion)	900	1,000	1,100	1,100	1,100
Other	<u>230</u>	<u>360</u>	<u>410</u>	<u>410</u>	<u>390</u>
	<u>5,040</u>	<u>5,910</u>	<u>8,120</u>	<u>9,100</u>	<u>10,470</u>
<u>Long Term Liabilities:</u>					
Bank and Private Borrowings	7,500	10,850	12,950	15,750	20,050
AID	<u>15,400</u>	<u>18,400</u>	<u>21,300</u>	<u>23,200</u>	<u>22,100</u>
	<u>22,900</u>	<u>29,250</u>	<u>34,250</u>	<u>38,950</u>	<u>42,150</u>
<u>Reserve:</u>	<u>2,240</u>	<u>3,140</u>	<u>4,140</u>	<u>5,140</u>	<u>6,240</u>
<u>Stockholders Equity:</u>					
<u>Paid-in Capital:</u>					
-Common Stock	3,400	3,600	3,600	3,600	3,600
-Preferred Shares	2,370	2,570	2,570	2,570	2,570
-Surplus	190	360	360	360	360
-Retained Earnings	<u>3,110</u>	<u>4,070</u>	<u>5,260</u>	<u>6,780</u>	<u>8,510</u>
Total Shareholders Equity	<u>9,070</u>	<u>10,600</u>	<u>11,790</u>	<u>13,310</u>	<u>15,040</u>
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	<u>39,250</u>	<u>48,900</u>	<u>58,300</u>	<u>66,500</u>	<u>73,900</u>

LAAD CONSOLIDATED CASH FLOW

	(US\$'000)				
	1980/1981	1981/1982	1982/1983	1983/1984	1984/1985
<u>INTERNAL FUNDING:</u>					
Gross Income	3,970	5,030	5,960	7,000	7,990
Time Deposit	300	Ø	Ø	Ø	Ø
Loan Amortization	7,240	8,890	9,700	10,800	12,100
Equity Divestiture	200	200	200	500	300
	<u>11,710</u>	<u>14,120</u>	<u>15,860</u>	<u>18,300</u>	<u>20,390</u>
<u>CURRENT OBLIGATIONS:</u>					
Principal Payments of Short Term Line of Credit	2,300	2,380	2,210	2,670	2,650
Principal Payment of Bank Term Loans	300	1,150	1,750	3,200	4,100
Principal Payments of AID Term Loans #1 and #2	580	700	700	700	700
Principal Payments of AID Term Loan #3 and #4	Ø	200	300	400	400
Interest Payments to Banks	1,090	1,320	1,660	2,110	2,630
Interest Payments to AID	540	590	710	810	830
Operating Expenses	830	1,020	1,130	1,260	1,400
	<u>5,640</u>	<u>7,360</u>	<u>8,460</u>	<u>11,150</u>	<u>12,710</u>
Cash Surplus (Deficit) before Dividends	<u>6,070</u>	<u>6,760</u>	<u>7,400</u>	<u>7,150</u>	<u>7,680</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	6,520	7,130	6,850	7,380
<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	2,210	2,670	2,650	3,320
Bank Term Loans	3,000	5,200	5,300	6,900	9,000
AID	1,000	4,000	4,000	3,000	Ø
Funds Available for New Investments	<u>12,800</u>	<u>18,500</u>	<u>19,100</u>	<u>19,400</u>	<u>19,700</u>
<u>NEW INVESTMENTS:</u>					
Time Deposits	800	Ø	Ø	Ø	Ø
Equity	300	400	500	500	500
Term Loans	11,700	18,100	18,600	18,900	19,200
TOTAL	<u>12,800</u>	<u>18,500</u>	<u>19,100</u>	<u>19,400</u>	<u>19,700</u>

ANNEX F
Exhibit 3

LAAD DE CENTROAMERICA
ANNUAL PROFIT AND LOSS STATEMENTS
(US\$'000)

<u>INCOME</u>	<u>1980/1981</u>	<u>1981/1982</u>	<u>1982/1983</u>	<u>1983/1984</u>	<u>1984/1985</u>
Interest Earned on Agribusiness	2,470	2,780	3,140	3,540	4,000
Interest Earned on Non-Agribusiness	20	160	160	160	160
Dividend Income	20	50	50	50	50
Closing Fee and Others	<u>100</u>	<u>150</u>	<u>150</u>	<u>150</u>	<u>150</u>
	2,610	3,140	3,500	3,900	4,360
<u>DIRECT EXPENSE</u>					
Interest Expense	<u>1,070</u>	<u>1,100</u>	<u>1,200</u>	<u>1,400</u>	<u>1,640</u>
Gross Profit	1,540	2,040	2,300	2,500	2,720
<u>OPERATING EXPENSES</u>	<u>550</u>	<u>640</u>	<u>700</u>	<u>780</u>	<u>860</u>
<u>OPERATING PROFIT</u>	990	1,400	1,600	1,720	1,860
<u>NON-OPERATING EXPENSES</u>					
Reserve and Depreciation	<u>400</u>	<u>560</u>	<u>600</u>	<u>600</u>	<u>700</u>
<u>NET INCOME</u>	590	840	1,000	1,120	1,160
<u>DIVIDENDS TO LAAD*</u>					
Preferred	(160)	(160)	(160)	(160)	(160)
Common	<u>(100)</u>	<u>(200)</u>	<u>(200)</u>	<u>(200)</u>	<u>(200)</u>
	(260)	(360)	(360)	(360)	(360)
RETAINED EARNINGS	330	480	640	760	800

* Eliminated in Consolidation

ANNEX F
Exhibit 3

<u>79</u>	<u>80</u>	<u>A S S E T S</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
		<u>Current Assets:</u>					
		Cash	50	50	50	50	50
		Time Deposits	1,000	1,000	1,000	1,000	1,000
		Long Term Loans (Current Portion)	6,700	6,000	6,000	6,500	7,000
		Interest & Other Receivables	<u>750</u>	<u>900</u>	<u>1,000</u>	<u>1,100</u>	<u>1,200</u>
			8,500	7,950	8,050	8,650	9,250
		<u>Long-Term Investments:</u>					
		Equity Investment in Other Companies	800	800	800	800	800
		Agribusiness Loans	<u>15,200</u>	<u>19,000</u>	<u>22,800</u>	<u>25,600</u>	<u>27,900</u>
21.0	22.1		<u>16,000</u>	<u>19,800</u>	<u>23,600</u>	<u>26,400</u>	<u>28,700</u>
		<u>Other Assets:</u>	22,700	25,400	29,600	32,900	35,700
		Organization Expense (Net)	5	5	5	5	5
		Furniture and Fixtures (Net)	10	10	10	10	10
		Other	<u>35</u>	<u>35</u>	<u>35</u>	<u>35</u>	<u>35</u>
			<u>50</u>	<u>50</u>	<u>50</u>	<u>50</u>	<u>50</u>
		TOTAL ASSETS	<u>24,550</u>	<u>27,800</u>	<u>31,700</u>	<u>35,100</u>	<u>38,000</u>
		 <u>L I A B I L I T I E S</u>					
		<u>Current Liabilities:</u>					
		Accrued Interest	200	270	340	410	500
		Short Term Loans	1,900	1,960	2,420	2,560	3,060
		Long Term Debt (Current Portion)	900	1,000	1,300	1,500	1,800
		AID (Current Portion)	700	700	700	700	700
		Other	<u>40</u>	<u>120</u>	<u>150</u>	<u>180</u>	<u>190</u>
			<u>3,740</u>	<u>4,050</u>	<u>4,910</u>	<u>5,350</u>	<u>6,250</u>
		<u>Long Term Liabilities:</u>					
		Bank & Private Borrowing	4,450	5,050	5,550	5,850	7,050
		AID	<u>8,600</u>	<u>9,900</u>	<u>11,200</u>	<u>12,500</u>	<u>11,800</u>
			<u>13,050</u>	<u>14,950</u>	<u>16,750</u>	<u>18,350</u>	<u>18,850</u>
		<u>Reserve:</u>	<u>1,600</u>	<u>2,160</u>	<u>2,760</u>	<u>3,360</u>	<u>4,060</u>
		<u>Stockholders Equity:</u>					
		<u>Paid-in Capital:</u>					
		-Common Stock	2,000*	2,000*	2,000*	2,000*	2,000*
		-Preferred Shares	2,000*	2,000*	2,000*	2,000*	2,000*
		-Retained Earnings	<u>2,160</u>	<u>2,640</u>	<u>3,280</u>	<u>4,040</u>	<u>4,840</u>
		Total Shareholders Equity	<u>6,160</u>	<u>6,640</u>	<u>7,280</u>	<u>8,040</u>	<u>8,840</u>
		TOTAL LIABILITIES & SHAREHOLDERS EQUITY	<u>24,550</u>	<u>27,800</u>	<u>31,700</u>	<u>35,100</u>	<u>38,000</u>

* Eliminated in Consolidation

LAAD DE CENTROAMERICA CASH FLOW

(US\$'000)

<u>INTERNAL FUNDING:</u>	<u>1980/1981</u>	<u>1981/1982</u>	<u>1982/1983</u>	<u>1983/1984</u>	<u>1984/1985</u>
Gross Income	2,610	3,140	3,500	3,900	4,360
Loan Amortization	6,100	6,700	6,000	6,000	6,500
Equity Divestiture	200	200	200	200	200
	<u>8,910</u>	<u>10,040</u>	<u>9,700</u>	<u>10,100</u>	<u>11,060</u>
<u>CURRENT OBLIGATIONS:</u>					
Principal Payments of Short Term Line of Credits	1,200	1,900	1,960	2,420	2,560
Principal Payments of Bank Term Loans	150	1,000	1,000	1,300	1,500
Principal Payments of AID Term Loans #1 and #2	580	700	700	700	700
Interest Payments to Banks	730	770	820	970	1,200
Interest Payments to AID	340	330	380	430	440
Operating Expenses	550	640	700	780	860
	<u>3,550</u>	<u>5,340</u>	<u>5,560</u>	<u>6,600</u>	<u>7,260</u>
Cash Surplus (Deficit) before Dividends	<u>5,360</u>	<u>4,700</u>	<u>4,140</u>	<u>3,500</u>	<u>3,800</u>
Preferred Dividends (A)	160 (A)	160 (A)	160 (A)	160 (A)	160 (A)
Common Dividends (A)	100 (A)	200 (A)	200 (A)	200 (A)	200 (A)
	<u>260 (A)</u>	<u>360 (A)</u>	<u>360 (A)</u>	<u>360 (A)</u>	<u>360 (A)</u>
Cash Surplus (Deficit) after Dividends	5,100	4,340	3,780	3,140	3,440
<u>EXTERNAL FUNDING:</u>					
Bank Revolving Line of Credit	1,900	1,960	2,420	2,560	3,060
Bank Term Loans	1,000	1,700	1,800	1,800	3,000
AID	Ø	2,000	2,000	2,000	Ø
Available Funds for New Investments	<u>8,000</u>	<u>10,000</u>	<u>10,000</u>	<u>9,500</u>	<u>9,500</u>
<u>NEW INVESTMENTS:</u>					
Time Deposit	800	Ø	Ø	Ø	Ø
Equity	200	200	200	200	200
Agribusiness Term Loans	7,000	9,800	9,800	9,300	9,300
TOTAL	<u>8,000</u>	<u>10,000</u>	<u>10,000</u>	<u>9,500</u>	<u>9,500</u>

(A) Eliminated in Consolidation

FIVE YEAR PRO-FORMA FINANCIAL PROJECTIONSOctober 1981 - October 1985

A S S U M P T I O N S

- - - - -

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

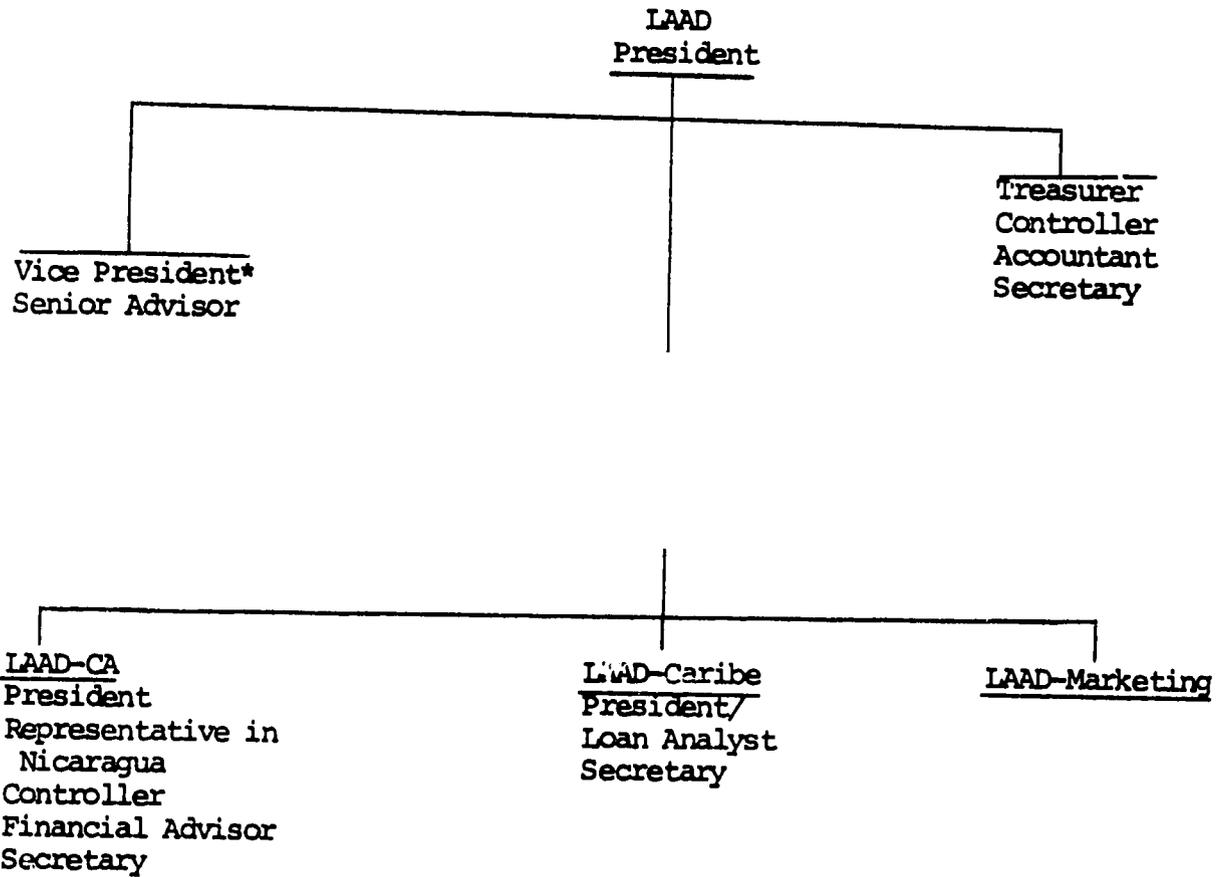
1. Although it anticipates raising an additional \$1.5 million in common stock by end of project, LAAD has been conservative in its projections and shows only \$400,000 in common stock and \$400,000 in preferred stock, or a total of \$800,000 in new equity.
2. LAAD and its operating subsidiaries will increase its borrowings from commercial banks and other financial institutions to an aggregate amount of US\$42.6 million over the next five years. Repayments under these loans will come to an aggregate amount of \$22.7 million during the same period. These loans will be used to fund agribusiness subloans.
3. These projections are based on a new 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 Central America. Disbursement is projected to begin in 1981/1982 and to end in 1983/1984.
4. Interest on LAAD's subloans funded by this AID loan was calculated at an average rate of 12.5% 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. No income is projected on LAAD's portfolio in Nicaragua over the five year period.
8. Operating expenses were calculated at an average increase of 12% for years 1981 through 1985. Such expenses were based on adding five professional persons to the present staff. The additional staff will be assigned to work for Central America (one), LAAD Caribe (two), Miami office (one) and the new South American operation (one).
9. Reserves 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 $\frac{1}{2}$ % 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.
10. 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.
11. The average life of subloans 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.
12. The anticipated interest receivable on October 31 is assumed to reach approximately $\frac{1}{4}$ of the projected gross income of each year.
13. The anticipated interest payable on October 31 is assumed to be approximately $\frac{1}{3}$ of the projected interest charged by AID and banks.

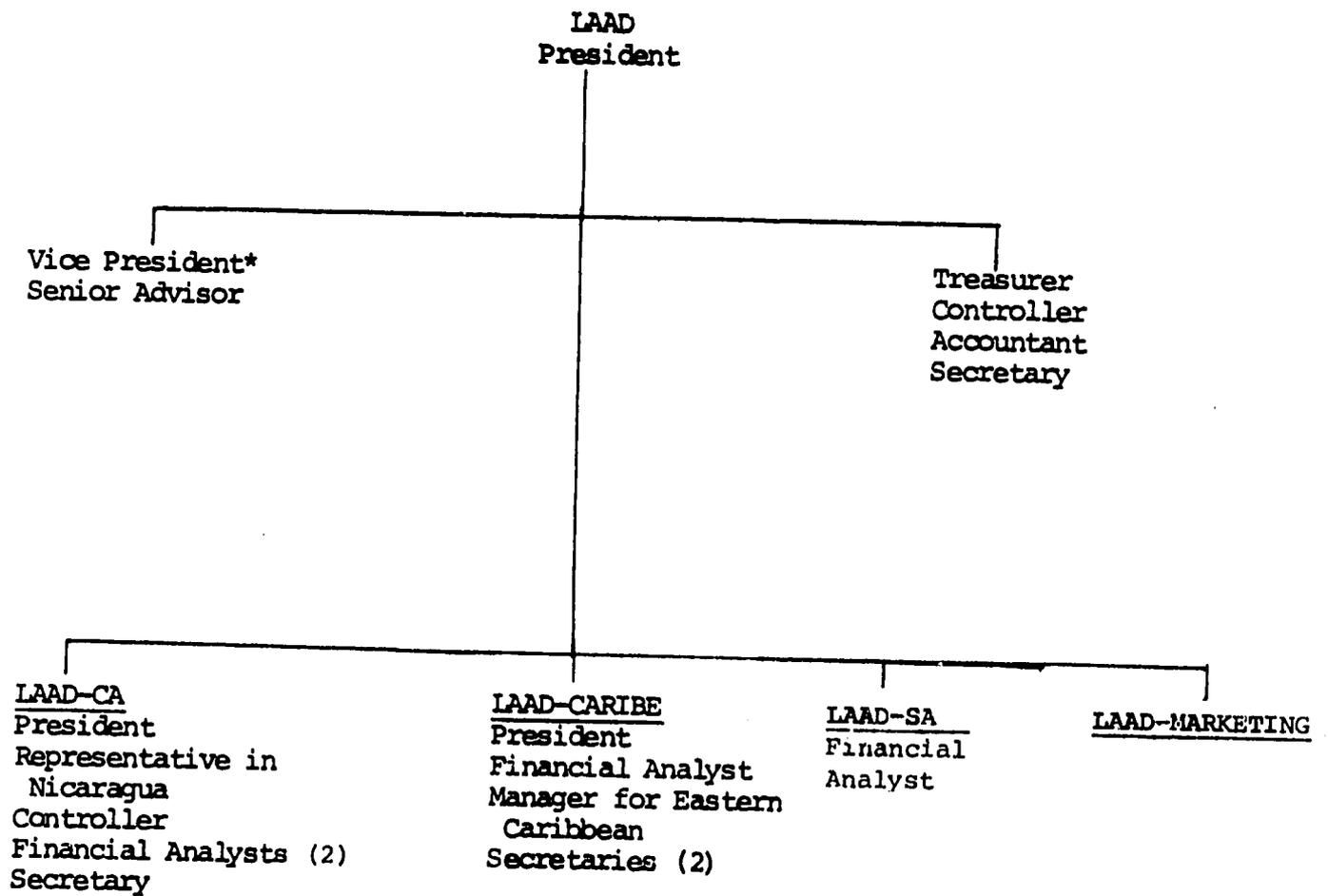
14. Loan repayments to AID are based on the loan agreements with them.
15. Loan repayments to banks after the grace periods were calculated at a rate of 20% for medium term loans and 33% for loans extended to the company after 1981.
16. PARAMETERS
 - A. At no time shall the consolidated current ratio 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: 1 2 3 4 5

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.

ANNEX I

Exhibit 1

AGRICULTURAL YIELDS
(Kilos per Hectare)

<u>Product</u>	(1) <u>Existing Average Yields</u>	(2) <u>Yields on Commercial Farms</u>	(3) Yields <u>Obtained in Experiment Stations</u>	(4) <u>(2 ÷ 1)</u>	(5) <u>(3) ÷ (1)</u>
Corn	1,035	3,800	8,000	3.7	7.7
Sorghum	1,117	4,500	7,600	4.0	6.8
Beans	652	1,280	2,300	1.9	3.5
Rice	2,046	5,150	10,000	2.5	4.9

Source: SIECA, "El Desarrollo Integrado, Desarrollo Agrícola", Vol. 5), 1973, Table 47, Page 147.

ANNEX I

Exhibit 2

CREDIT EXTENDED BY THE BANKING SYSTEM TO THE
 AGRICULTURAL SECTOR IN 1979, WITH BREAKDOWN
 BY DESTINATION IN TWO C.A. COUNTRIES
 (IN MILLIONS OF DOLLARS AND PERCENTAGES)

	<u>Guatemala</u>		<u>El Salvador</u>	
	<u>Amount of Ag. Credit</u>	<u>% of Total</u>	<u>Amount of Ag. Credit</u>	<u>% of Total</u>
Total Credit for Ag. & Livestock	<u>121.0</u>	<u>100%</u>	<u>254.6</u> ^{1/}	<u>100%</u>
Traditional Export Products	<u>61.8</u>	<u>51.4</u>	<u>222.2</u>	<u>87.3</u>
Coffee	34.8	29.0	133.6	52.5
Cotton	23.9	19.8	77.4	30.4
Sugar Cane	3.1	2.6	11.2	4.4
Basic Grains	14.5	12.0	8.1	3.2
Livestock	31.0	25.6	4.4	1.7
Other Ag.	13.6	11.2	19.9	7.8

^{1/} Inclusive of "refinancing"

Source: For Guatemala: Banco de Guatemala, Boletín Estadístico Oct.-Nov-Dic., 1980, Tables 17 and 18. For El Salvador: Banco Central de Reserva, Revista Mensual, August, 1980, P. 480.

ANNEX I

Exhibit 3

LAAD-CO'S INVESTMENTS
CUMULATIVE THROUGH 03/31/81

<u>COMPANY</u>	<u>BUSINESS</u>	<u>DISBURSEMENTS</u>		
		<u>Equity</u>	<u>Loan</u>	<u>Total</u>
<u>Guatemala</u>				
Horacio Villavicencio y Co. Ltda.	Cattle	--	255.0	255.0
Algodonera Guatemalteca, S. A.	Vegetable Oils	--	750.0	750.0
Industrias Tropicales, S. A.	Vegetables Oils	--	200.0	200.0
Las Flores, S. A.	Flower and Orna- mental Plants	--	242.5	245.5
Sistemas AQ, S. A.	Services	--	130.3	130.3
Técnica Universal, S. A.	Farm Equipment	--	750.0	750.0
Arrocera Los Corrales y Co. Ltda.	Grains	--	1455.0	1455.0
Agroquímicas de Guatemala, S. A.	Grains	--	1000.0	1000.0
Industrias Sésamo, S. A.	Grains	175.0	375.0	550.0
Jardines Mil Flores, S. A.	Flower and Orna- mental Plants	--	160.0	160.0
Promotora Agrícola Básico Ltda.	Fruits and Vegetables	--	60.0	60.0
Finca Las Fuentes, S. A.	Vegetable Oils	--	100.0	100.0
Co. de Distribución Centroameri- cana, S. A. (CODICASA)	Services	78.8	218.8	297.6
Grandel, S. A.	Food Processing	100.0	60.0	160.0
Finca Variedades	Vegetable Oils	--	160.0	160.0
Remote Sensing Engineering Ltd.	Services	--	80.0	80.0
Los Pinos, S. A.	Fruits and Vegetables	15.0	--	15.0
Alimentos Congelados Montebello, S.A. (ALCOSA)	Food Processing	--	518.0	518.0
Co. Comercial e Industrial de Su- pertiendas, S. A.	Services	110.0	--	110.0
Empresa Cucuchan, S. A.	Fruits and Vegetables	--	80.0	80.0
Ganadería Sta. Lucrecia, S. A.	Vegetable Oils	350.0	--	350.0
Asociación de Productores de Aceites Esenciales, (APAE)	Vegetable Oils	--	150.0	150.0
Manuel Ralda e Hijos	Cattle	--	200.0	200.0
Neil Potter P.	Cattle	--	300.0	300.0
Agrícola La Primavera, S. A.	Fruits and Vegetables	--	106.2	106.2
Conservas de Centroamerica, S.A.	Food Processing	--	400.0	400.0
Comercial Agrícola El Escobillo, S.A.	Cattle	--	150.0	150.0
Desarrollo Ganadero Chiuhuitán	Cattle	--	500.0	500.0
Ramiro Castillo y Asociados	Services	--	468.0	468.0
Inaflora, S. A.	Flowers and Orna- mental Plants	--	430.0	430.0
Hernán Roldán Castañeda	Fruits and Vegetables	--	26.0	26.0
Agroinversiones, S. A.	Flowers and Orna- mental Plants	--	125.0	125.0
Plantaciones Salamá	Fruits and Vegetables	--	45.0	45.0
Raimundo Riojas	Grains	--	500.0	500.0
Proyectos Alimenticios, S. A.	Services	--	81.0	81.0
Fomento de Inversiones y Arriendos	Services	--	200.0	200.0
Fca. Armenia y Anexos, S. A.	Agriculture	--	400.0	400.0
Co. Agrícola Pachonté, S. A.	Vegetable Oils	--	600.0	600.0
Alimentos Regia, S. A.	Vegetable Oils	--	200.0	200.0

Guatemala (Cont'd)

<u>COMPANY</u>	<u>BUSINESS</u>	<u>DISBURSEMENTS</u>		
		<u>Equity</u>	<u>Loan</u>	<u>Total</u>
Agrorecursos, S. A.	Fruits and Vegetables	--	170.0	170.0
Internacional de Comercio, S. A.	Services	200.0	--	200.0
Vegetales R & S	Fruits and Vegetables	--	35.0	35.0
Agricultores Productores de Aceites Esenciales, S. A. (APAESA)	Vegetable Oils	--	200.0	200.0
		<u>1028.8</u>	<u>11880.8</u>	<u>12909.6</u>
		=====	=====	=====

EL SALVADOR

Pavos, S. A.	Poultry	--	160.0	160.0
Agrícola Salvadoreña, S. A.	Poultry	--	120.0	120.0
Quality Foods de Centroamérica, S. A.	Food Processing	240.0	--	240.0
Quiñónez Hnos., S. A.	Food Processing	80.0	320.0	400.0
Auto Ahorro, S. A.	Services	--	500.0	500.0
Procesadora Agrícola Salvadoreña, S.A.	Grains	200.0	--	200.0
Financiera Salvadoreña, S. A.	Services	--	500.0	500.0
Financiera de Desarrollo, S. A.	Services	--	500.0	500.0
Arrocera San Francisco, S. A.	Grains	--	500.0	500.0
Granja El Faro, S. A. de C.V.	Poultry	--	400.0	400.0
		<u>520.0</u>	<u>3000.0</u>	<u>3520.0</u>
		=====	=====	=====

HONDURAS

Co. Agrícola Industrial (CAICESA)	Vegetable Oils	250.0	--	250.0
Fomento Internacional, S. A. de C.V.	Services	--	150.0	150.0
Astro Agrícola, S. A. de C. V.	Agriculture	--	750.0	750.0
Líneas Aéreas Nacionales, S. A.	Miscellaneous	50.0	--	50.0
International Wood Products, S.A.	Wood Products	205.7	--	205.7
Mejores Alimentos de Honduras, S.A.	Food Processing	298.4	156.6	455.0
Agrícola de Honduras, S. A. de C.V.	Fruits and Vegetables	--	295.4	295.4
Bco. La Capitalizadora Hondu- reña, S. A. (BANCAHSA)	Miscellaneous	--	400.0	400.0
Empacadora de Carnes Carnilandia, S.A.	Food Processing	--	100.0	100.0
Bco. Financiera Hondureña, S. A.	Miscellaneous	--	500.0	500.0
Leche y Derivados, S. A. (LEYDE)	Food Processing	275.0	--	275.0
Co. Azucarera Hondureña, S. A.	Agriculture	--	500.00	500.0
Fábrica de Muebles Contessa	Wood Products	--	500.0	500.0
Granja Avila, S. A.	Poultry	--	495.0	495.0
Pastificios Hondureños, S. A.	Food Processing	--	175.4	175.4
Industrias Molineras, S. A.	Food Processing	--	850.0	850.0
Empacadora Alus, S. A. de C. V.	Food Processing	--	800.0	800.0
Probise, S. A. de C. V.	Cattle	--	200.0	200.0
		<u>1079.1</u>	<u>5872.4</u>	<u>6951.5</u>
		=====	=====	=====

<u>COMPANY</u>	<u>BUSINESS</u>	<u>DISBURSEMENTS</u>		
		<u>Equity</u>	<u>Loan</u>	<u>Total</u>
<u>NICARAGUA</u>				
Empacadora Nicaraguense, S. A.	Cattle	--	300.0	300.0
Haciendas Ganaderas	Cattle	--	200.0	200.0
Más x Menos de Nicaragua, S. A.	Services	71.4	--	71.4
Industrias Almolonca, S. A.	Food Processing	--	340.0	340.0
Productos Sanitarios de Nicaragua, S. A. (PROSAN)	Miscellaneous	200.0	225.0	425.0
Hielera Sequeira, S. A.	Miscellaneous	--	200.0	200.0
Atlantic Coast Chemical Co. (ATCHEMCO)	Miscellaneous	--	500.0	500.0
Agrícola San Enriquez, S. A.	Cattle	400.0	--	400.0
Instituto de Fomento Nacional (INFONAC)	Miscellaneous	--	500.0	500.0
Mayorga Hidalgo & Co. Ltda.	Cattle	--	400.0	400.0
Mántica Berio, S. A.	Grains	--	300.0	300.0
		<u>671.4</u>	<u>2965.0</u>	<u>3636.4</u>
		=====	=====	=====
<u>COSTA RICA</u>				
Ganadera Industrial, S. A. (GISA)	Cattle	--	410.0	410.0
American Flower Corp.	Cut Flower Growing	50.0	337.5	387.5
Ingenio Taboga, S. A.	Agriculture	--	750.0	750.0
Cañera Las Brisas, S. A.	Agriculture	--	250.0	250.0
Sánchez Cortez Hnos., S. A.	Agriculture	--	750.0	750.0
La Rivera, S. A.	Agriculture	--	250.0	250.0
Pozuela Picasso, S. A.	Wood Products	200.0	200.0	400.0
Taylor & Associates of Costa Rica	Food Processing	200.0	251.0	451.0
Tenería Gisa, S. A.	Miscellaneous	200.0	--	200.0
Frigoríficos Técnicos, S. A.	Miscellaneous	200.0	--	200.0
Ganadera Chiamira, S. A.	Cattle	--	200.0	200.0
Foliage Incorporated, S. A.	Flowers and Orna- mental Plants	30.0	200.0	230.0
Rico Tico Alimentos, S. A.	Food Processing	50.0	50.0	100.0
Banco de Créditos Agrícola de Cartago	Miscellaneous	--	500.0	500.0
Bco. de Costa Rica	Miscellaneous	--	500.0	500.0
Ganadera San Jerónimo, S. A.	Cattle	--	350.0	350.0
Katojeke, S. A.	Cattle	--	400.0	400.0
Alimentos de Costa Rica, S. A.	Grains	--	230.0	230.0
Hacienda Las Delicias, S. A.	Cattle	--	700.0	700.0
Inversiones Corobicí, S. A.	Cattle	--	600.0	600.0
Hacienda La Trampa, S. A.	Cattle	--	600.0	600.0
Agropecuaria Milwakee, S. A.	Cattle	--	220.0	220.0
Liga Agrícola de la Casa	Food Processing		1000.0	1000.0
		<u>930.0</u>	<u>8748.5</u>	<u>9678.5</u>
		=====	=====	=====
GRAND TOTAL		4,229.3	32,466.7	36,696.0

Annex JLAAD/ICI COFINANCING

<u>PROJECT</u>	<u>ICI</u>
Prosan	Cabei Banco de Desarrollo Nacional (INFONAC)
Mántica Berio, S. A.	Bco. Nicaraguense Bank of America
Mayorga Hidalgo y Co. Ltda.	Banco Nicaraguense Bank of America
Agrícola San Enrique, S. A.	Banco Nicaraguense Bank of America
Atchemco	Cabei Banco de Desarrollo Nacional (INFONAC)
Infonac	Public Development Institution
Leyde	Bancahsa
Contessa	Conadi Bank of America
Granja Avila	Banco de Honduras Banco de Comercio BANADESA
Industrias Molineras, S. A.	Conadi Banco Atlántida Banco Financiera Hondureña
Empacadora Alus, S. A.	Banco Financiera Hondureña Banco de Honduras
Cahsa	Banco Atlántida Banco Financiera Hondureña Bank of America
Caicesa	Banadesa Banco de Honduras
Fomento Internacional, S. A.	Cabei Banco Nacional de Fomento
Astro Agrícola, S. A.	Citibank Bank of America
International Wood Products, S.A.	Cabei Banco Financiera Hondureña

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OTHER ICI FINANCING TO LAAD-CA CLIENTS

<u>PROJECT</u>	<u>ICI</u>
Mejores Alimentos, S. A.	Cabei Conadi Bank of America
Agrícola de Honduras, S. A.	Cabei Conadi Bank of America
* Bancahsa	-----
* Banco Agrícola de Cartago	-----
* Banco de Costa Rica	-----
Ganadera Industrial, S. A. (GISA)	Banco Anglo Costarricense Bank of America
American Flower Corp.	Bank of America
Ingenio Taboga, S. A.	Banco Nacional de Costa Rica Citibank
Cañera Las Brisas, S. A.	Banco Nacional de Costa Rica Citibank
Sánchez Cortez Hnos., S. A.	Banco Nacional de Costa Rica Banco de Costa Rica
La Rivera, S. A.	Banco Nacional de Costa Rica Banco de Costa Rica
Hacienda Las Delicias, S. A.	Banco Nacional de Costa Rica Citibank
Inversiones Corobicí, S. A.	Banco Anglo Costarricense
Hacienda La Trampa, S. A.	Banco Nacional de Costa Rica
Liga Industrial de la Caña	Bank of America Banco Nacional de Costa Rica
Ganadera San Jerónimo, S. A.	Banco de Costa Rica
Introsa	Fiasa
Arrocera Los Corrales	Banadesa Banco Agrícola Mercantil Bank of America

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OTHER ICI FINANCING TO LAAD-CA CLIENTS

<u>PROJECT</u>	<u>ICI</u>
APAE	Banco del Agro, S. A.
Técnica Universal, S. A.	Bank of America London Citibank
Agroquímicas de Guatemala, S. A.	Bank of America Banco Agrícola Mercantil
Industrias Sésamo, S. A.	Bank of Chicago Crédito Hipotecario Nacional
Inaflora, S. A.	Bank of America
Agroinversiones	Bank of Chicago
Raimundo Riojas	Banco Agrícola Mercantil Bank of Chicago Chase Manhattan Bank
Finca Armenia	Bank of Chicago Banco Agrícola Mercantil Banco Granai & Townson
Agrícola Pachonté	Bank of Chicago Banco Agrícola Mercantil Banco Granai & Townson
Alimentos Regia	Bank of America
Procesadora Agrícola Salvadoreña	Banco Salvadoreño
Granja El Faro, S. A.	Bank of America
Arrocera San Francisco, S. A.	Banco Crédito Popular
* Banco de Desarrollo (FIDESIA)	-----
* Fisal	-----
Auto Ahorro, S. A.	Bancapi

* Bancahsa: Financing small farmers, producers of rice in Choluteca.

* Banco Agrícola de Cartago: Purchases to farmers producing broccoli, okrn and peas for Frigitec.

* Banco de Costa Rica: Financing San Carlos Area (Farmers only)

* Fisal: Industrias Agrícolas Ideal and Semillas, S. A.

* Banco de Desarrollo (FIDESIA): Lassally y Co. and Maquinaria Agrícola