PD-AAL-601

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: A (A = Add, C = Change, D = Delete) — Amendment Number: ____

DOCUMENT CODE: 3

2. COUNTRY/ENTITY: HAITI

3. PROJECT NUMBER: 521-0154

4. BUREAU/OFFICE: LAC — 05

5. PROJECT TITLE (maximum 40 characters): Development Finance Corporation

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 12 DD 31 YY 85

7. ESTIMATED DATE OF OBLIGATION (Under 'B.' below, enter 1, 2, 3, or 4)
A. Initial FY 83 B. Quarter 1 C. Final FY 86

8. COSTS ($000 OR EQUIVALENT $1 =)

A. FUNDING SOURCE	FIRST FY 83 B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total	5,000		5,000	5,000		5,000
(Grant)	( )	( )	( )	(5,000)	( )	(5,000)
(Loan)	( )	( )	( )	( )	( )	( )
Other U.S. 1.						
Other U.S. 2.						
Host Country - DFC		1,000	1,000		1,000	1,000
Other Donor(s)						
TOTALS	5,000	1,000	6,000	5,000	1,000	6,000

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	2. Loan	D. OBLIGATIONS TO DATE 1. Grant	2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	2. Loan	F. LIFE OF PROJECT 1. Grant	2. Loan
(1) ESF	730	810				5,000		5,000	
(2)									
(3)									
(4)									
TOTALS						5,000		5,000	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each): 840

11. SECONDARY PURPOSE CODE:

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code	INTR						
B. Amount	5,000						

13. PROJECT PURPOSE (maximum 480 characters)

To establish a private Development Finance Corporation to provide medium-long-term credit and support services to investors for industrial and agro-industrial projects in Haiti.

14. SCHEDULED EVALUATIONS
Interim MM YY — MM 10 YY 84 Final MM 10 YY 85

15. SOURCE/ORIGIN OF GOODS AND SERVICES: ☐ 000 ☒ 941 ☒ Local ☐ Other (Specify) ____

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a ____ page PP Amendment.)

17. APPROVED BY
Signature: Harlan H. Hobgood
Title: Director, USAID/Haiti
Date Signed: MM 09 DD 14 YY 82

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION
MM DD YY

AID 1330-4 (8-79)

DEVELOPMENT FINANCE CORPORATION

PROJECT PAPER

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I. SUMMARY AND RECOMMENDATIONS

A. Recommendations

Pursuant to the review and approval of the proposed Development Finance Corporation Project by the USAID/Haiti Mission's Project Review Committee, it is recommended that:

(1) The Assistant Administrator/LAC approve the Project described herein for a total cost to AID of $5,000,000 in grant funding over a three year period.

(2) The Assistant Administrator/LAC redelegate authority to the USAID/Haiti Mission Director to sign a project agreement for $5,000,000 with the Haitian Development Finance Corporation "Société Financière de Developpement Haitienne".

B. Project Summary

The Grantee will be the Development Finance Corporation (DFC) of Haiti, whose legal name is the Société Financière de Developpement, which will be incorporated in October 1982. The DFC's Board of Directors and stockholders, presently the core group organizers and equity subscribers, include a broad representation of prominent Haitian businessmen and professionals, commercial banks and Haitian based U.S. companies. This new institution will finance development oriented industrial* projects that require medium or long term credit for their start-up and successful operation.

The DFC project is a new initiative and no funding for it is provided in USAID/Haiti's FY 82 or 83 OYB. This Project Paper proposes AID funding of $5 million over a three-year LOP, $1.0 million of which would be used for technical assistance and training. The remainder of AID's contribution

* In terms of the proposed project the "industrial sector" is assumed to include agro-industrial, manufacturing, and assembly activities.

($4.0 million) would be for loan capital for DFC sub-loans to private investors at commercial rates of interest. Although a FY 83 obligation of the required LOP funds would be highly desirable, a minimum of $1.0 million in grant funds is essential for the prompt start-up and first year's operation of the DFC. The obligation of this amount, either in Development Assistance or Economic Support funds would allow the DFC to contract the technical advisors required to initiate its operational development work and to begin the critical portfolio development work.

The goal of this project is to stimulate industrial growth in both the manufacturing and agricultural sectors of Haiti, that will result in increased levels of employment and income. The proposed project will contribute to the achievement of this goal by promoting and facilitating domestic and foreign investment in Haiti, especially in agriculture-oriented processing industries and labor-intensive operations that maximize in-country value added to their products. The purpose of the project is to establish a Development Finance Corporation to provide medium/long-term capital and support services to investors for industrial projects in Haiti.

The DFC will be a development banking institution which will provide project development and financial services to clients involved in new or expanded industrial projects. Special emphasis will be given to regional projects, profitable projects with medium size investors, and investments with the potential to generate significant employment. The DFC will be characterized by a broadly based equity structure. No individual shareholder will be allowed to possess more than 10% of the common stock in order to avoid over concentration of the capital in small groups. Highly qualified professional management will be recruited and assisted by international experts.

Project selection criteria will include economic viability/impact, availability of skilled management, estimated return on investment, direct employment potential, and foreign exchange earnings. The DFC will be the link between the investor community, which is seeking to expand Haitian industrial and commercial development, and international financial institutions.

Approximately 50 industrial (including agribusiness) sub-projects, will be financed during the three-year period of the AID grant. The DFC's average loan in each sub-project is expected to be $150,000. During the period of initial sub-loan disbursement the DFC is projected to create about 3,000 new jobs.

Substantial employment generation and widespread entrepreneurial growth, as a result of the financing of new or expanded industrial projects, are the most significant outcomes anticipated under the project. The target population which will be reached by the DFC's operations can be divided into three categories of direct beneficiaries: entrepreneurs/investors; unemployed or underemployed laborers (both urban and rural); and small farmers. The employment and earnings opportunities provided by the DFC will be especially important to Haiti's poor. The industrial projects financed by the DFC will be labor-intensive and many will draw on raw materials produced by Haiti's peasant farmers. Criteria for project financing will reflect the above concerns.

C. Summary Findings

The Mission Review Committee has determined that the proposed project is sound on a financial, economic, social, and institutional basis. The Project also meets all other statutory criteria.

D. Project Issues

The issues presented in the PID Approval Cable (Annex A) were addressed in the preparation of the Project Paper. These are discussed in several sections of this document and are summarized below.

1. Financial Plan

a. Equity Structure. The Institutional Analysis, (V.D.1) describes the DFC's shareholder structure and the plans for increasing the equity base of the DFC.

b. Sub-loan Interest Rates. The Financial Analysis, Section V. A. and supporting data (Annex L) describes the DFC's proposed lending rates and provides information demonstrating the feasibility of operating the DFC on a profitable basis. The criteria for setting the lending rates and the sensitivity analyses required to examine the impact of various rates are also presented in the above sections.

c. Financial Viability. The Financial Analysis, Section V. A. and Annex L provide comprehensive financial data which demonstrates the financial viability of the DFC and the assumptions in support of this data.

2. Demand for DFC Capital. The sub-loan demand analysis is presented in Annex O and summarized in Section II B. 4. Information is available regarding the size of the DFC's potential market, recommended loan size, and a profile of typical sub-loans in Section III D.

3. Project Elements

Pursuant to the DAEC guidance the special "small projects" loan fund was removed from the Project.

The DFC's administrative costs will be financed by the company's equity capital and therefore AID grant monies will not be used to meet these normal business expenses (see section IV. Financial Plan).

The proposed training activities are discussed in the Detailed Project Description (Section III. D. 5). In general, they will be: directed at DFC personnel, short-term in nature, and tailored to the DFC's immediate needs.

Although feasibility studies will not be funded by the DFC, such studies will be eligible for financing as part of a sub-loan. The nature and level of technical assistance required for the DFC is discussed in the Detailed Project Description (Section III. D. 4).

4. DFC Operations

USAID/Haiti concurs with the DAEC's recommendation regarding non-involvement in the DFC's day-to-day operations. USAID will only review those proposed sub-loans which require A.I.D. approval and the procedure for this is described in the Project Implementation Section (VI.A.1). USAID will monitor the DFC's activities through the customary means, i.e. the conditions and covenants in the Project Agreement, (see Section VII. B. Conditions and Covenants), site visits, reports and evaluations. The terms of the Project Agreement will be included in the proposed policy and operational guidelines of the DFC (see Annex J). This document specifies the following terms, inter alia, as being the principal conditions upon which AID's funding of the DFC will be based:

a. A limit on the debt/equity ratio is set at 5/1 and discussed in the Financial Analysis, Section V.A.

b. Dividend payout, described in Section V A. "Financial Analysis" will be restricted during the initial years of operation, and subsequent payment will be set at those levels considered to be fair to stockholders and as required for the necessary build up of retained earnings.

c. Limits on the potential borrowing of DFC lending capital, receipt of equity financing or guarantees by the DFC's Board of Directors or staff are presented in Section III.D.1.d.

d. The DFC's equity investments will be restricted as described in the above Section of the PP.

e. An appropriate reserve for bad debts is planned and will be consistent with the experience of similar institutions.

5. Conditions

As discussed in the Project Background and Rationale (Section II. B. 3) the Legislative Chanber has enacted the legislation which permits

the estalishment of the DFC and the law will be signed in mid-September by the President.

The other conditions recommended by the DFC will be included in the Project Agreement (see Section VII).

6. Trust Fund

A description of the trust fund, created for the repayment of the lending capital and its proposed establishment and uses is presented in Section III. E., Detailed Project Description.

E. Project Development Participants

1. Mission Project Committee

Aaron S. Williams, Chief, Office of Private Enterprise Development/OPED
Joseph Thomas, Director, Florida-Haiti Program
James Walker, Economist
Tanya Weiss, OPED
Robert Meighan, Regional Legal Advisor
Peter Bittner, LAC/DR

2. Mission Review Committee

Harlan H. Hobgood, Mission Director
Phyllis Dichter, Assistant Director
David Adams, Development Resources and Evaluation Office.
Don Shannon, Controller
Robert Gibson, Regional Contracts Officer.

3. Consultants

Carl Braun, President Capital Consult S.A.
Humberto Esteve, A.D. Little
Robert Wagner, A.D. Little
Steven Hurley, A.D. Little
Nicholas Holland, A.D. Little

4. The Development Finance Corporation Core Group

5. Other Participants

Steven Lack, President, LAAD-Caribe
Reese Moyers, IBRD Advisor/Industrial Development Fund
Tomas Pastoriza, President, and the staff of Financiera Dominicana

5. Secretarial Assistance (USAID)

Margaret Kalil, OPED
Mireille Colin, DRE
Mireille Peloux, DRE

II. PROJECT BACKGROUND AND RATIONALE

A. Industrial Sector in Haiti

1. General Trends

Although at least 70% of the Haitian people are still employed in agriculture, the Haitian economy is moving steadily toward urban concentration and a dynamic manufacturing/commerce-related services sector as the producer of new jobs, income and exports. The proximity to the U.S. market, the abundant and productive supply of labor, and the one-way free trade proposal of the CBI make the prospects for significant growth in Haiti's present export assembly industries real indeed. At the same time however, the transition away from a predominantly peasant economy will be very precarious during this decade, particularly for the declining rural economy.

Available data indicate that average annual per capita income in Haiti was $260 in 1979. This figure makes Haiti the only country in the Western Hemisphere included on the United Nations' list of thirty "relatively least developed countries" (RLDCs). Yet even this figure fails to communicate the level of poverty in Haiti. Income distribution is highly skewed, and only the substantial wealth of the small urban elite brings the national per capita income figure above absolute poverty levels. The World Bank estimated that in 1976, 0.4% of the population accounted for 44% of the national income. More than 80% of the population had an average income of under $150 in 1979. Despite a level of absolute poverty in Port-au-Prince that afflicts more than half the city's population, per capita income in the capital was estimated by the World Bank at more than ten times that of rural areas.

Given present conditions in Haiti, the central thesis to this project is that improved economic well being, self-sustained growth, and new wealth can best be created through the stimulation of manufacturing/commerce related investments. A better distribution of national income will be most effectively achieved through a realistic long-term investment strategy that assures fair and reasonable returns to labor, and fair returns to the entrepreneurs who will open and sustain new markets for Haitian products.

Haiti's present manufacturing base is modest compared to other developing countries. The contribution of the manufacturing sector to GDP is the lowest among Latin American countries: 13.2 percent in 1979. This figure is at the level of the average share of manufacturing in the 37 least developed countries of the world. Although this manufacturing activity is mainly of the cottage type, centered on the processing of agricultural raw materials for local consumption and exports, a modern sector has recently developed which caters to both domestic and foreign markets.

Among the export oriented industries, assembly for re-export activities are the most important. During the past decade these enterprises have been the fastest growing "sub-sector " of the Haitian economy, in sharp contrast with the much slower growth of the agro-industrial sub-sector. Together, the re-export industries and the small (including the "informal sector" category) industries represent over 95% of all industrial employment. Re-export industries alone are estimated to generate nearly 76% of all new employment opportunities in the formal industrial sector. In 1981 they employed over 50,000 people and provided 35% of total Haitian exports.

Two criticisms often leveled at assembly industries in general--that they are foot-loose and isolated from the rest of the economy--are not relevant in Haiti.* There has been no serious retrenchment in the fact of a U.S. recession, and on the contrary, increasing cost-consciousness in the U.S. has probably accelerated the production sharing process with Haiti. The sector is versatile: local enterprises have moved from one principal to another, or operate with several principals, they have changed their production lines (from clothing to electronics, or both simultaneously, rolling over their tax incentives in the process). Nor is the assembly industry isolated in the same way as enclave industries on the Mexican-US border, for example. Off-shore Haitian assembly plants do not

* Information regarding assembly industries is based on the IBRD's Economic Memorandum on Haiti, April 1982.

operate in bond, they import their inputs, duty-free like most other industries, and have to go through the same bureaucratic red tape as other industries in their import-export trade. Their goods can be sold on the local market provided that relevant import duties are paid. In fact, it is likely that more assembly plants would be attracted if the industry could operate as an enclave and in that manner reduce bureaucratic inefficiencies and improve the infrastructure and support services that an industrial free zone usually provides.

2. Contraints to Private Investment in Haiti

USAID conducted a Food and Agriculture Sector assessment in December of 1981. The purpose of this exercise was to analyze sector constraints, identify potential opportunity areas, and to formulate strategic program recommendations. Two of the team's experts focused on areas for private sector activities. As a result of extensive interviews and analysis, two major issues were identified that represented constraints to private sector investment in industrial activities. These two issues were: inadequate financing facilities, and the lack of appropriate market information.

Because of their direct relevance to this project and the design of future actions, these issues are discussed in detail below.

a. Financing

Businessmen active in industrial enterprises in Haiti operate in a difficult financial environment characterized by a limited availability of funds, shortage of foreign exchange, and the inefficient procedures of development finance institutions.

(1) Loan Capital/Financial Institutions

There are at present four development oriented credit institutions in Haiti:

The "Institut de Développement Agricole et Industriel" (IDAI)
The "Bureau de Crédit Agricole" (BCA)
The Haitian Development Foundation (HDF)
The "Fonds pour le Développement Industriel" (FDI)

IDAI is a government development finance corporation whose activities encompass both the financing of Private/industrial projects and management of GOH enterprises. Loans and investments are made for industrial and agricultural (agribusiness as opposed to small farmer crop financing) activities. In 1980 IDAI received $3.9 million from the national budget, of which it spent $3.1 million for salaries and other administrative expenses. The outstanding loan portfolio, developed with Inter-American Development Bank (IDB) funds, was $6.4 million as of December 1980 and the investment portfolio was of $7.2 million. The net increase in the loan portfolio in the period 1979-1980 was $2.2 million (disbursement less recovery). Dissatisfaction expressed by the business community, and supported by various evaluations, indicated that IDAI suffers from the following problems: Excessive administrative overhead, especially in personnel to supervise and monitor agricultural credit; slow processing of loan applications and rigid requirements for supporting technical studies and guarantees; lack of responsiveness to the special needs of small private enterprises; and preoccupation with building up the investment portfolio of IDAI's own subsidiary. Therefore, this institution is not considered a viable source of credit by the business community nor a potential vehicle for stimulating significant industrial growth.

The BCA is also a government institution, that specializes in crop lending to small farmers. Currently A.I.D. is supporting the BCA's programs with a $2.4 million institutional strengthening project (521-0121). Due to its specialized nature and limited loan protfolio the BCA is not a source of industrial credit, but it will continue to be a critical support institutions for small farmer groups who will be producing crops for agribusinesses.

The HDF receives substantial funding from AID and the IDB, in addition to the support by the Haitian private sector. It has been in operation for two years, providing credit and technical assistance to micro-businesses in the Port-au-Prince area. The HDF total loan portfolio as of May 1982 was $350,000. 1982 operating expenses of the HDF, grant funded by A.I.D. and other donors, will amount to approximately $390,000. The Foundation's loans range in size from $100 to $8,000 and are disbursed to a wide variety of small businesses (e.g. tailors, carpenters, handicraft, etc.) in the Port-au-Prince area. Loan repayment rates have consistently been outstanding (about 95% overall) due to a carefully executed program for credit extension and follow-up, which also partly explains the high cost of administration as compared to the loan portfolio volume.

The Industrial Development Fund (FDI) has been recently created with direct grant and loan support by the World Bank. The FDI is a rediscount and credit guaranty fund which operates exclusively through the established commercial banking network i.e. the FDI has no direct lending capacity. Projects will be financed which entail a majority Haitian investment, a maximum FDI participation of $250,000 and terms of up to 15 years. The projected operating cost of the FDI is approximately $200,000 per year. Its present capital endowment is $7,000,000 which is planned for disbursement over a four year period.[1/] However it appears at this juncture that the FDI's market penetration will be somewhat limited due to the commercial banks' reluctance to use its services. At the present time the program is not well utilized due to the substantial paperwork involved, the willingness of the banks to provide direct financing for projects from their best customers, the excess liquidity (in gourdes) of the banks due to the current foreign exchange shortage and the lack of full dollar reimbursement for discounted dollar loans (14% of the discount is in gourdes from the Central Bank). In addition commercial banks view the discount rate as being too low to give them sufficient return for the risks they would take.

1/. The first tranche of the World Bank loan is US $4 million with proposed increments of up to three million over the four year period.

Several international commercial banks and two private Haitian banks also operate in the country. The foreign banks operate almost exclusively in Port-au-Prince, while the state owned commercial bank is also established outside the capital. The Royal Bank of Canada is by far the largest foreign bank with 35% of total private bank assets. New deposits of the banking system in 1980 amounted to $46 million, an increase of approximately 32% over 1979. Outstanding credit to the private sector was $212 million, a net increase (new loans less recoveries) of only $14 million over 1979 (7%).[1/] As of September 1981 outstanding claims increased to $222 million, while new credit to the business community increased by $11 million (5%).

These banks are restricted by Haitian banking laws, in that no more than 10% of a bank's portfolio may consist of medium or long term loans. Commercial banks concentrate, therefore, on the distributive sector and provide essentially short term loans. However, the "revolving credit" practice in Haiti for priority customers provides effective loan terms that are longer than normal. Because these loans are also made to the capital equipment (tractors, farm machinery, etc.) distribution/importing companies, it may be asserted that commercial banking credit has had as favorable a development impact in Haiti as the existing development finance institutions.

Another development finance institution operating in Haiti is the Latin American Agribusiness Development Corporation (LAAD). This private company has a loan/investment portfolio in Haiti of $3.2 million concentrated in agro-industrial enterprises. This portfolio has been built over the last seven years and probably will not increase significantly because of corporate policies and concerns regarding individual country exposure and difficult recovery experiences due to foreign exchanges shortages. Another obstacle to LAAD's operations is the lack of agribusiness projects with projected rated of return sufficiently high to effectively use market

1/. This was partially due to the build up of deposits related to the growth of the foreign exchange backlog.

rate funds. Also due to LAAD's limited staff (2 persons for the entire Caribbean) it is difficult to provide the promotional and technical services required to develop agro-industrial projects in Haiti.

A rough estimate of the aggregate amount of credit made available to the private sector during 1980 for all purposes by the "development financing" agencies and the commercial banking system would be approximately $16.0 million, of which $13.0 million was short-term credit from ccommercial banks. Thus these meager financial resources directed to the private sector, which is basically short term in nature, in conjunction with a "ponderous" development finance institution has resulted in a low level of industrial growth in the past two years.

While the commercial banking system may show much greater ability and responsiveness to private sector financing (short term) requirements, the low expansion (loan portfolio growth) rate may be indicative of a situation where the banks are essentially servicing the same clientele year after year. There is evidence that few new clients have been added and this is certainly the case outside of Port-au-Prince where only a few have operating branches.

Compounding the problem of bank financing are the costs and restrictions on foreclosure of real property offered as guaranty or loans collateral. The banks' understandable reluctance to secure a significant portion of their loan portfolios with real property (not easily realizable under current law in Haiti) has created a situation in which their outreach is tied to the established businessman in Haiti who is considered to be an excellent credit risk.

(2). Foreign Exchange Shortage

Haiti experienced a deterioration of its balance of payments situation during 1980 and 1981, when official reserves were reduced by U.S.$11.8 million and U.S.$33.3 million respectively (see tables below). Official disposable foreign exchange holdings fell to a negligible level

during the first quarter of 1981. Acute shortage of foreign exchange continue to hamper economic activity today. U.S. dollars do not circulate as widely as before. A parallel market has developed with a 10 percent premium being offered for dollars. Arrears have also accumulated in the private banking system due to the inability of the Central Bank to provide sufficient foreign exchange.

A combination of internal and external factors produced this economy-wide crisis. An excellent coffee crop in FY 1980 was followed by a decline that resulted from Hurricane Allen and a weakening in world coffee price. At the same time, other external factors impacted adversely upon Haiti, including (1) rising world prices for petroleum products and other essential imports, (2)deeping recession in the industrial countries, (3) and an unprecedented rise in interest rates in the United States.

Compounding the impact of these external shocks, the GOH significantly increased its expenditures in 1981. The large budget deficit was in part financed by the Central Bank and this put additional pressure on scarce foreign exchange reserves. The high levels of expenditures also abrogated the conditions of the existing EFF (Extended Fund Facility) agreement with the IMF and resulted in curtailed access to IMF foreign exchange resources.

Several steps were taken during 1981 and 1982 to deal with the scarcity of foreign exchange. In July 1981, the Central Bank instructed the exchange houses to negotiate all foreign transfers with the government owned commercial bank (BNC). And in August, 1981, the Central Bank introduced restrictions on foreign exchange transactions. All export proceeds were to be documented with the commercial banks in Haiti. All foreign exchange derived from exports were to be surrendered to the Central Bank, which established priorities for the use of the exchange for imports.

In August 1981, the GOH also put forth an economic austerity plan to increase Haiti's ability to finance its own development through increased domestic savings, improved management of public funds,

fiscal discipline, and limitations on imports and promotion of exports. These reforms paved the way for an IMF approval of a $20 million CFF (Compensatory Finance Facility) in December 1981. While fiscal targets were exceeded in January and February of 1982, later compliance with IMF fiscal targets led to IMF Board approval of a Standby Agreement in August 1982 for $38 million. The fiscals targets as established by the agreement have to date been met and the first disbursement of $11 million was made in August 1982.

It is still to early to indicate when and to what degree Haiti will emerge from its short-term economic crisis. However, given the limited prospects for traditional exports, including bauxite and coffee, and the increasing demands for imports and government services on the part of the urbanizing population, it is reasonable to assume that foreign exchange problems will remain a chronic problem over the long run for Haiti. Business financial transactions have been complicated by the foreign exchange shortage. Exporters must surrender their earned foreign exchange to the Central Bank, with no guarantee that they will receive needed exchange for U.S. dollar transactions. To insure access to dollars, premiums of up to 10 percent must be paid in the parallel market. Firms have also resorted to the accumulation of overseas dollar accounts.

BALANCE OF PAYMENTS, 1979-81
(US$ Million)

	1979	1980	1981
Merchandise Trade, F.O.B.	-106.4	-89.77	-144.3
Exports	138.6	212.3	153.7
Imports	-245.0	-302.0	-298.0
Services (net)	-40.1	-50.5	-59.1
Transfers (net)	85.8	71.3	87.4
Current Account Balance	-60.7	-69.8	-116.0
Public Sector Capital (net)	33.1	36.6	42.6
Private Investment (net)	12.0	13.0	15.7
Other	29.8	8.4	24.4
Capital Account Balance 1/	74.9	58.0	82.7
Change in Foreign Reserves (increase: -)	-14.0	11.8	33.3

1/ Source: Bank of the Republic of Haiti and International Monetary Fund

NET INTERNATIONAL RESERVES, 1979-81
(US$ million; as of September 30)

	1979	1980	1981
Banking System	39.1	29.8	-2.0
Monetary Authorities	44.7	32.9	-0.2
Assets	54.7	39.9	19.4
Liabilities	-10.0	-7.0	19 6
Private Banks (net)	-5.7	-3.1	-1.8

Source: Bank of the Republic of Haiti and International Monetary Fund

b. Information Gap

The lack of accurate and timely market information frequently inhibits the Haitian investor who is considering a new investment or the expansion of an existing business. Typically businessmen lack contacts to assist in project identification (idea generation), access to foreign market information, specific technical knowledge, and reliable financial data.

The above constraints, which are usually encountered by the indigenous private sector in LDCs, may be more acute in Haiti. Private sector organizations such as chambers of commerce and industrial associations, which traditionally have been the prime movers of market information exchanges and business contacts in other countries, have until recently been largely nonexistant or ineffectual in Haiti. In most developing countries of Latin America the public sector created or fostered the creation of investment promotion mechanisms almost a generation ago. ONAPI*, Haiti's equivalent organization, was created in 1979 and became operational only this year. Although ONAPI's scope of activities is directed at over-coming the information gap, the organization is severely limited by resources and experience.

Another possible source of technical assistance, market research capability (limited to the Haitian market), and contacts with potential interested foreign investors are a few local consulting firms and law firms, although for some companies they may be too expensive, particularly at the pre-feasibility stage.

In addition to the difficulty of obtaining adequate collateral as a basis on which to lend, commercial banks and other lenders have also faced a historical social pattern which does not look upon the provision of audited financial information to creditors as a normal business

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* National Office for Investment Promotion

practice. One major concern has been a fear that the information would fall into the hands of tax authorities or competitors. There are few auditing firms in Haiti, so even when financial information is provided it has not been audited by an independent source. The lack of audited financial information closes the doors to many businesses which might otherwise have been able to obtain some financing, based on such information, if combined with full or partial collateral. While the financial and moral character of the borrower is extremely important it is often not enough, especially in the case of medium and smaller size businesses, to provide a secure foundation on which a banker can make a positive decision.

3. New Investment Potential

a. Caribbean Basin Initiative - Haiti's Perspective

The proposed U.S. program consists of integrated, mutually reinforcing measures in the fields of trade, investment, and financial assistance.

The centerpiece of the U.S. program is the offer of one-way free trade. Currently the countries of the region are already afforded liberal entry into the U.S. market. Nevertheless, some of the duties which remain in place are on product groups of special interest to the Basin countries. They also limit export expansion into many nontraditional products. Authority has been requested from the Congress to eliminate duties on all imports from the Basin except textiles and apparel. Rules of origin will be liberal enough to encourage investment, but will require a minimum amount of local content (25%). Congressional authorization is also being sought to grant U.S. investors in the Caribbean Basin a significant tax measure to encourage investment.

Foreign investor interest in Haiti during the 1970s was limited due to the lack of promotion, and to the fact that Haiti does not

attract the kind of tourism which has brought investment in its wake for other unpromoted countries such as the small Commonwealth Caribbean States Foreign, mainly U.S., investors came to the island because of personal links with Haitians. However, recently the first national investment promotion activities were supported by the private sector. In November-December 1981, two important US investment missions visited Haiti. One was sponsored by the Overseas Private Investment Corporation (OPIC). It brought to Haiti senior executives of some 20 US companies which had expressed an interest in Haiti and possessed the technical expertise to invest in the country. The second mission was organized by the Governor of Florida and included representatives of both public and private sector organizations in that state. The mission's main purpose was to examine technical assistance and investment possibilities to improve economic conditions in Haiti, thus helping to create employment that could reduce the incentives for Haitians to immigrate to the U.S. and particularly Florida. The Florida industrial committee reported that Haiti's poor image abroad and lack of positive promotion had made it the best kept secret for investment opportunities in the Caribbean and proposed to identify 50 US corporations which Haiti should target for future industrial development. The finding, conclusions, and recommendations from a third mission, sponsored by AID's Private Enterprise Bureau in July, have not yet been published.

The major attraction offered to US, and other foreign, investors apart from proximity to the US, tax incentives, and political stability, is the low cost of labor. Compared with other regional locations, Haiti's enjoys both a very favorable wage rate and a comparative transport cost advantage.

MINIMUM WAGES IN CARIBBEAN ASSEMBLY INDUSTRIES
IN DECEMBER 1981*

	Minimum Daily Wage US $
Mexico (Sonora Province)	13.20
Dominican Republic	6.80
Jamaica	5.00
El Salvador	4.40
Barbados	3.80
Haiti	2.64

(in garment assembly plants)

Haiti's success in developing export-oriented industries is demonstrated in the overall growth of Haiti's exports to the US under tariff items 806 and 807 concessions which cover most offshore assembly operations. U.S. trade laws permit the export of U.S. manufactured parts and reimport of finished items assembled from these parts under very favorable trade terms. This has supported the growth of Haitian assembly industries. In 1980, Haiti was the ninth most important LDC 806/807 exporter, only just behind Korea and Brazil. Compared with others LDC's however, Haiti's valued-added component is still less than half the average for all LDCs. Continuation of this trade policy and its expansion under the CBI will provide incentives to continued expansion of labor-intensive industries as wage rates in other developing countries continue to rise, labor productivity declines, and manufacturers identify additional opportunities where export-reimport is more profitable than U.S. or other LDC based assembly of their products.

Exports of goods made from domestic materials have not fared so well. Most are destined for the US and suffered from the recessions

* IBRD Economic Memorandum, April 1982.

in 1975, and again in 1981. This sector, which includes agro-industries, faces supply problems, poor knowledge of markets and the lack of marketing experience as obstacles to growth. Although the new dynamic group of resident entrepreneurs willing to reinvest their capital in Haiti is growing, their resources are limited. Thus the rapid development of Haiti's private sector will continue, for some time to come, to depend on the outside world for inflows of capital, technology and access to new markets.

b. The Florida-Haiti Program

In November of 1981 the State of Florida, under the auspices of the Office of the Governor, organized and carried out an economic mission to Haiti. This four-day mission, headed by the Lt. Governor consisted of thirty five representatives from both the public and private sector who were selected for their expertise in different fields. The principal objective of the Florida Mission was to ascertain the opportunities for private investment from Florida in Haitian agribusiness, industry and trade. The potential for providing technical assistance to support specific Haitian private sector initiatives was also explored.

The four day trip resulted in the identification of areas for economic and technical assistance. Specific recommendations were made for the follow-up activities required to develop individual sub-projects, and formed the basis for the implementation of the Florida-Haiti Program. The Lt. Governor and a specially created Florida-Haiti Committee are the core group responsible for the State of Florida's follow-up actions.

The major purpose of the Florida-Haiti Program is to link the Haitian private sector with those members of Florida's private sector who might be interested in joint venture opportunities with the private sector in Haiti. The input from a Florida investor could include financial investment, technology transfer, expertise, market access, etc. A second purpose of the Florida-Haiti Program is to locate other resources in Florida that could assist in the development and/or feasibility studies of specific private

sector projects in Haiti. Such Haitian private sector initiatives could benefit from Florida's public sector resources which encompass universities and state and local government agencies as well expertise available from Florida's private sector.

One of the principal results of both Florida and OPIC missions was to focus the Haitian business community's attention on the need to establish a focal point for local and international investment proposals. Numerous project ideas were presented in these investment missions and the DFC is considered to be the appropriate facility to provide project development services and financing to potential investors.

B. Project Rationale

1. Overview

The proposed project reflects major strategic objectives of the USAID Mission to Haiti. Consistent with our FY 1984 Country Development Strategy Statement, it takes advantage of an opportunity to benefit from and reinforce the energy and resources of the dynamic private sector which is the most progressive element of Haiti's society and economy. Furthermore, it provides a concrete response to this opportunity to build an institutional capacity to promote private initiative and economic growth in a manner which reflects the aid, trade and private investment thrust of the Caribbean Basin Initiative (CBI).

If the objectives of this project are met to the point of creating a focal point for private sector (foreign and domestic) initiatives for Haiti, the multiple development impact will far exceed AID's dollar contribution. If successful the project will stimulate new industrial and agro-industrial investment in Haiti that will create employment and increased incomes for the unemployed poor majority (both skilled and unskilled workers), generate critical foreign exchange, and increase the GOH's tax revenue base. Agro-industrial investment will be promoted in order to expand the domestic market for food crops produced by small farmers and to increase economic

returns to their labor as well as the labor of those employed in the new or expanded processing and marketing activities.

The establishment of a Development Finance Corporation (DFC) in Haiti is fully consistent with AID's principal private sector development goals which are:[1/]

- To assist in financing the establishment, improvement and expansion of productive, developmentally desirable private enterprises in priority sectors in developing countries in association with host country and U.S. private investors;

- To promote investment opportunities in developing countries by bringing together U.S. and host country capital and experienced management, thereby transferring technical, managerial and marketing expertise from the U.s. to the developing countries;

- To stimulate and help create conditions conducive to the flow of U.S. and host country private capital into productive investment in development countries.

The Mission recently conducted an in-depth review of the Haitian private sector as a part of the food policy task force's investigations. The private sector analysis focused on the opportunities for and the constraints to increased investment in Haiti. This report again identified the lack of a development finance framework as one of the principal obstacles to greater industrial growth.[2/] A strong demand for medium and

1. AID Administrator's testimony, House Foreign Affairs Committee "AID/IDCA policies and Programs for Private Sector Involvement" (2/24/82).
2. In terms of the proposed project the "industrial sector" is assumed to include agro-industrial, manufacturing, and transformation activities.

long-term credit continue to exist, as does the need for an efficient and responsive financial institution to supply it.

There have been dramatic changes in the structure (ownership pattern), behavior and attitudes of the Haitian private sector in recent years and particularly over the last two years. These changes in attitudes and behaviour can be linked to the relative growth of the manufacturing sector which has given rise to a new modern entrepeneurial elite, in many cases the children of Haitian and immigrant parents that started their economic/business activities in the more traditional import and commercial activities. This new business/entrepreneurial class has been barred access to governmental power and influence by the very nature of the Haitian "political process" over the past 25 years.*/

The private sector has moved in a dynamic fashion to develop trade and industrial organizations that represent their "interests" and philosophy, and the government seems to have increasingly realized the strong limitations it faces in promoting economic development. This increased self-confidence of the private sector in conjunction with the government's apparent conclusion that it cannot by itself bring about significant growth in the manufacturing sector has resulted in a lowering of antagonistic tendencies. The need to alleviate the massive unemployment and pauperization of Port-au-Prince's rapidly growing urban population has led to a search, however hesitant and contradictory at times, for areas of collaboration between the business community and the GOH. Furthermore through numerous actions and its active participation in organizations such as the Haitian Development Foundation, the local business community has demonstrated a new awareness and understanding of its role as initiator and leader of Haiti's economic and social development.

* Therefore the private sector has concentrated in developing and managing new businesses in an economic climate that was created by "laisse faire" government policies.

A fundamental force behind this awareness has been the active involvement of the five principal business associations in Haiti and the leadership that key members of those associations have provided. As a means of unifying and mobilizing their efforts, in December 1981 the associations formed a Private Sector Committee for Development. Recognizing the critical need for a development finance institution that could assist in mobilizing new investment, the Committee's first official act was to pledge themselves to raise locally $1.0 million as their capital contribution toward the establishment of such an institution which could address the severe shortage of medium and long-term financing for industrial and agro-industrial enterprises. USAID believes that this private sector initiative, unique in Haitian history, represents a singular opportunity and a major departure from the traditional business philosophy and behavior here. Time is of the essence in responding to this enthusiastic reaction to the CBI concept and if the opportunity is lost it could result in dissillusionment with the CBI's proferred "bold new initiatives". AID's timely support of this project is critical in order to sustain the private sector's willingness and ability to play the lead role in Haiti's development.

The proposed DFC will provide the capital and technical expertise to promote and support new industrial investment in Haiti. This institution will differ from the previous project concept and existing financial institutions in terms of its legal basis, scope of activities, anticipated development impact and extensive shareholder (equity) participation. The DFC will be a unique finance institution, engaged in professional and efficient lending activities, that will: assist potential borrowers in project development, and extend credit to entrepreneurs for worthwhile projects. However in defining the uniqueness of this institution both in its Haitian context and more broadly in comparison to other AID assisted private development finance companies in Central America and the Caribbean, it possesses several notable characteristics which are of special developmental importance. Among these are the wide distribution of ownership and the perception by the private sector that the DFC can be a powerful, non-GOH controlled, tool for economic growth and modernization of Haitian society.

2. Prior promotional activities for the DFC

a. Origin

In 1975 the USAID Mission in Haiti, aware of the improving economic climate in the country and recognizing the need for medium and long-term credit, decided that a private Development Finance Corporation (DFC) would be a worthwhile project to pursue. A group of prominent local businessmen took up the idea, encouraged by the success of similar institutions in other countries and in particular the Financiera Dominicana in the neighboring Dominican Republic.

Despite great initial interest on the part of the Haitian sponsors, the project proceeded slowly, especially as it became clear that AID would not provide the monetary support that was required unless an independent study substantiated the need for financing and the viability of the proposed DFC. By the time AID had contracted a feasibility study with ADELATEC in the latter half of 1977, the enthusiasm of the Haitian business group had considerably waned.

The ADELATEC study* was finished in 1978. It gave a very complete picture of the Haitian economy and its probable evolution, analyzed the demand for financial services, especially the need for medium and long-term credit, compiled an inventory of appropriate projects for possible financing by the DFC and determined that a private DFC was feasible. The ADELATEC report indicated that adequate demand exists for a DFC in Haiti. Moreover, it was recommended that such an institution be created to overcome present bottlenecks in Haiti's financial system and to permit the country to achieve its ambitious growth targets.

In particular, the proposed DFC was to provide medium and long term credit with terms up to seven years including a grace period of

* "Private Development Finance Company for Haiti", Feasibility Study, ADELATEC, May 1978. (see Annex F).

up to two years, at an interest compatible with going market rates. The DFC would also grant guarantees and provide some promotional services. It was conceived as having an authorized capital of US $1.5 million and to be sponsored by private Haitian citizens (50%), foreign public and private financial institutions (40%) and the Haitian Government (10%). In addition, the DFC would be able to borrow funds up to a debt to equity ration of about 5.0. USAID was to provide US $3 million at concessionary terms (20 years, 5 years grace period, 3% p.a.).

Although the conclusions of the ADELATEC report were very positive the interest on the part of local businessmen was insufficient to launch the project. They felt that too much time had elapsed, and that AID's target group requirements* would promote projects that would provide lower profit levels than those they were used to making. In the final analysis, the main cause of inaction was perhaps that all participants were busy men, with their own businesses to look after and r ne had the time to promote and organize the DFC. This was especially true due to the continuous debate regarding the GOH's intentions to assert institutional control over the DFC's policies and operations.

The AID Mission, on the other hand, felt that the group was too narrowly based, representing only one group of powerful businessmen in the country, and that unless someone did take the project in hand and maintain the pressure for its progress, nothing would come of it.

b. Second Phase Activities

In September 1978 AID contracted with Arthur D. Little, Inc. (ADL) to assist the local promoters to broaden the support for the DFC and bring the project to a successful conclusion. At that time AID had clearly stated its interest in the DFC and its willingness to support it

* Emphasis on agriculture, with required small farmers involvement, substantial rural employment.

financially, and the IBRD had tentatively planned to lend US $3 million in concessionary terms apart from a possible 10% participation in equity by the IFC. On a parallel basis the German Development Corporation (EDG) would possibly invest DM 600,000 in the DFC's equity and lend DM 2 million on favorable terms.

Against this background ADL made contact with a large number of people and institutions in Haiti who, at one time or another, had participated or expressed interest in the project. It soon became clear that the original promoters were somewhat discouraged at the thought of broadening the base of the proposed institution and were not willing to invite competing groups to join in the venture. In the small Haitian business community there were long-standing personal and family suspicions, and a tradition of doing business with your own "clan" or circle of friends. There was also insufficient understanding (with a few notable exceptions) of what a finance corporation of this kind was about.

ADL focused on the following key areas as a means of redirecting the process of establishing a DFC.

(1) The Banking Laws. As ADELATEC pointed out, the existing banking laws and regulations contain a number of restrictions which would not allow a DFC to function. The principal restriction is on medium and long-term credit which may not represent more than 10% of a financial institutions's portfolio. In reality, the banks do grant a higher porportion of such credits by such informal means as agreements to renew short term credits, undated demand notes, etc. ADELATEC had suggested that the banking laws would have to be changed and, indeed, a consolidated new banking law was being prepared. As the investigation of this subject continued, however, it became clear that the passage of the new law and any modifications to it would represent a long and complicated legislative process. It was eventually concluded that the most efficient method would be to promote a decree specifically enabling the creation of DFC's.

(2) The Chattel Mortgage. Several of the potential international participants in the DFC were concerned about the nonexistence in Haiti of a chattel mortgage (as pointed out by ADELATEC in its report). It was felt that alternative guarantees should be explored and explained. It is a fact that the chattel mortgage as understood in Anglo-Saxon law does not exist in Haiti. A mortgage can only apply to real estate but not other property such as machinery, raw materials, inventory, etc. There are, nevertheless, several equivalent guarantees by which lenders protect their interest.

For example, real guarantees can be obtained in the form of a lien which can be attached to chattel under a "pledge contract" (see ADELATEC's report, Annex II). This seems to be a frequently used device instead of or in addition to a mortgage on real property. It is also possible to attach raw materials of finished products in a warehouse under a warrant system. However, none of these methods was sufficient to convince lenders to do the collateral based lending they might otherwise do.

(3) Guarantee of International Loans. The AID loan to the DFC as well as loans of other international lenders was to have been guaranteed by the GOH. The core Group decided that it should not be difficult and would not present any problem to the DFC, if the GOH were to give its guarantee. Under these conditions, the GOH would be the recipient of AID funds and transfer them to the Corporation.

A related point was whether the DFC would be able to extend dollar-denominated loans. The answer to this was positive: All bank accounts in Haiti are in dollars except those established by the Government which are in Gourdes. The overwhelming majority of transactions in Haiti are conducted in dollars and under Haitian law the gourde/dollar exchange rate is fixed at 5:1.

(4) The Enabling Legislation. It was decided that a Presidential decree was the most effective instrument to enable the formation of a DFC. In October 1979 the GOH issued the decree authorizing the formation, constitution and operation of a DFC with private or mixed capital.

c. Changing Attitudes to the DFC Project

The enabling legislation for the DFC was passed in October 1979. At the same time, the Core Group had received the required equity pledges, an escrow account had been opened and the charter was ready. Nevertheless, the final steps to incorporate the DFC were not taken. The reasons for this are apparently to be found in certain changes of attitudes both of the Core Group and of the principal international sponsors.

(1) Changes in the Core Group Attitude

The Core Group, as most other businessmen in the Haitian community, was feeling the effects of the high interest rates in the United States. Credit from U.S. suppliers was tighter, while the need to extend credit in Haiti was becomig greater. Local banks were restricting credits and had less foreign exchange available. Further private sector uncertainty was created by several cabinet changes, the unfinished negotiations with the IMF on the Extended Fund Facility, and by certain government actions and pronouncements.

In March 1979, the Government issued a decree creating a National Investment Promotion Office (CNAPI). The office's function was to design a foreign investment policy, to establish contact with capital exporters and advise them of the favorable conditions for investment in Haiti, to identify investment opportunities in the country and generally to promote foreign and national investment. While this new institution was intended only to promote and not to finance investment, there was some doubt in the private sector as to the role it would eventually play.

In November 1979, in support of urban planning, public works and environmental control, a law was published on the expropriation of land and other real estate in the public interest. 1/ The respective legislation was worded in such general terms that it put in serious doubt the

1. Loi sur l'expropriation pour cause d'Utilité Publique, Le Moniteur, 8 novembre 1979.

value of a first mortgage on real property. The Core Group's not unjustified reaction was to stop the progress of the DFC project.

In April 1980, the President of the Republic announced his intention to create a National Development Bank. The bank was to respond to the demand for medium and long term credit and stimulate private and public investment within the framework of the National Development Plan. Its financing criteria were to be based on the general economic interest of the country, the quality of the investor and the profitability of the enterprise. The bank would also provide technical assistance services to identity and prepare suitable projects, as well as assist in their execution and follow-up. The fundamental overall criteria would be the project's benefit to the national economy. This presidential announcement further disorientated the Core Group as it was not clear where the line of demarcation between the National Development Bank and the DFC would be drawn.

(2) AID Policy

At the inception of this project, AID had indicated that it was ready to support the DFC with a loan of US $3 million. After more than a year passed without the formation of the institution, it was decided to remove the DFC project from the budget due to the demand for scarce funds for new and existing projects. This did not indicate a complete lack of interest in the DFC, however, and some funds were to be made available for technical assistance if the DFC project got off the ground again.

(3) IBRD Policy

Given that the DFC did not materialize as expected, the World Bank's interest in the DFC shifted to support for small and medium industries which resulted in the FDI project. In order to provide financing to the industrial sector a rediscount fund was set up as a semi-autonomous unit under the Central Bank. In principle, the fund can serve both large and small industrial and agricultural projects but its primary focus is on small and medium scale industry. By working through the commercial banks it was

believed that rapid disbursements would occur due to the discount/guaranty incentives for the banks and without the need to create a full service credit institution.

3. Current Project Status

The Haitian private sector, including both Haitian and American businessmen, have revived the concept of a DFC through a unique promotional campaign directed by local business leaders. The subscription drive to raise equity capital for the DFC has received broad based and rapid support by the private sector. A working group was appointed to develop the objectives and strategy for the establishment of the DFC. The group includes representatives from the business community, the GOH, USAID, and the banking sector. This group is being assisted by consultants from the Arthur D. Little Corp.,

The initial task of this group was to analyze the 1979 DFC law in order to determine the need for modifications to or replacement of this law. The findings of this analysis indicated that the existing law would not be appropriate for the new DFC's operations as the law required that 20% of the stock be offered to the GOH, and called for restrictive regulatory controls over the DFC by the Government and the Central Bank. Furthermore, the original law did not provide special rights to the DFC concerning chattel mortgages for the issuance of bonds for investment mobilization.

With the assistance of the former Minister of Finance and the working group's legal advisor, a new law was drafted for submission to the GOH. Under the terms and conditions of this proposed DFC legislation solutions are included for the following key problems areas.

(1) The DFC will be exempt from existing Haitian banking laws in the areas of restrictive reserve requirements and the right to extend medium and long-term credit, while at the same time the DFC will be authorized to implement savings mobilization programs.

(2) The DFC will be permitted to protect its investments by use of chattel mortgage under which real property (machinery, crops, livestock raw materials, etc.) will become collateral for DFC loans.

In similar fashion, legal opinions have been received concerning the 1979 eminent domain law and it is believed that this law in effect represents real progress regarding the GOH's use of this customary governmental privilege. Legal advisors have indicated that the law needs to be modified in form rather than substance, and that the private sector should be represented on the GOH regulatory committee.

On August 19, 1982 the GOH cabinet approved the draft law and it was submitted to the Legislative Chamber. The Chamber's approval, came on August 30, 1982, and it is expected to be signed into law by the President in September 1982. Following enactment of the law, the core group will file for incorporation. It is expected that the DFC will be incorporated in November.

4. Demand for DFC capital

ADELETEC conducted a preliminary demand analysis for the DFC project in 1978. OPIC and the FDI have also compiled lists of investment profiles which indicated a potentially significant market for DFC lending. In order to verify the existence of a reasonable demand for DFC loan capital the A.D. Little Corporation, in conjunction with a local consultant, carried out a new market analysis. The complete analysis is presented in Annex O.

The projections of the total demand for DFC funds was developed from information gathered through interviews with 32 Haitian companies. Because it is not anticipated that the DFC will make loans to the service sector, to primary agricultural producers, or to government-owned operations, these market survey interviews were limited to privately owned productive enterprises in the agro-industrial, manufacturing, and assembly industries. The interviewees were asked to provide detailed information about

any specific plans for expansion of their existing operations or new projects in unrelated industries, including the amount of non-equity capital that these projects would require during the next three years, and the borrowers' ability to access existing sources of funds.

Other background information supplied by the interviewees was used to develop weighting factors to be applied against the interviewees stated demand for funds. These factors reflect the interview team's assessment of the likelihood of each project becoming a bankable proposition able to qualify for DFC financing during the next three years. By eliminating all those interviewed who were believed to have access to other funding sources, the demand for DFC funds identified was converted to an estimate of the "need" for DFC funds. The three year need, or specific demand, identified in our sample population was factored up to an estimate of the total specific demand among all productive private sector firms using a sample and universe stratified by both industry and firm size. New project demand was similarly factored up, then reduced by 50% to reflect the conviction of the interview team that the entrepreneurs interviewed were roughly twice as likely to undertake new projects as the general business population.

An average of the estimated annual specific demand for DFC funds was used to project demand for the ten year period of analysis, after deduction of an estimated amount (15%) of pent up, non-reccurrent demand. This amount was inflated by 16.2% per year to reflect an assumed rate of inflation of 10% and the five year historical average real growth in commercial bank credit to the private sector (5.6%). In each year, forecast demand was then increased by 10% - an estimate of the anticipated but unmeasurable, walk in demand from sources presently outside the productive private sector. The total projected demand in each year was:

Year	1983	84	85	86	87	88	89	90	91	92
$	3248	3773	4382	4327	5027	5839	6783	7878	9152	10630

Finally, once the ten year, demand was established, the amounts were compared to the estimated amount of loans which the DFC could be expected

to handle in any one year given its proposed organizational structure. The lower of the two levels (institutional capability or market size) was used for the final loan demand estimate, as follows:

Year	1	2	3	4	5	6	7	8	9	10
Loans Made (U.S.$000)	630	2,060	3,548	4,327	5,027	5,839	6,783	7,878	8,794	9,675

The projected amount of loans made by the DFC, as shown in the financial analysis, falls short of projected demand in the first three and last two years of the analysis due to institutional limitations such as staffing.

5. Relationship of Project to GOH Priorities

The general objectives of the GOH Five-Year Plan (1981-86) are consistent with those set out in the CDSS. The GOH's industrial development strategy is based upon the proferred conviction that, in order to realize economic growth and achieve genuine national development, economic policies should be formulated to support the expansion of a free market economy. In such a system, the private sector should play the dominant role in industrialization and has responsibility for virtually all production of goods and services. It is the stated intention of the GOH to carry out this strategy through the following initiatives:

(1) the construction of infrastructure required for the growth of marketable agricultural production;

(2) the promotion and establishment of manufacturing enterprises throughout the country;

(3) encouragement and support of private initiative through new credit policies and a coherent budget policy; and

(4) assuring rational administration of external aid and cooperation in order to realize maximum benefit.

The goals described above are in line with the GOH's industrial policies which facilitated the growth of the assembly/light manufacturing industries during the past ten years. This new industrial growth which created significant employment in the economy, has been welcomed by the GOH and various incentives were created to stimulate this industrial expansion. These incentives, primarily tax holidays and custom duty exemptions, created an environment for profitable investment during the 1970's.

6. Other Donor Programs

There are three other donors actively engaged in industrial sector activities in Haiti: IBRD, IDB, and the Federal Republic of Germany.

The World Bank Group, through IDA, supports the Industrial Developmet Fund's (FDI) re-discounting/guarantee program. This project's (previously discussed) activities are aimed at increasing the lending capital of the commercial banks for medium and long-term loans and to establish a credit guarantee program. It is envisioned that the DFC would utilize the services of the FDI and strengthen the FDI's current operations which have been constrained by the commercial banks' reluctance to extend medium and long-term industrial credit.

Haiti is also eligible to participate in the Caribbean Project Development Facility (CPDF) which is managed as an affiliate of the International Finance Corporation. CPDF's mandate is to assist established businesses in twenty-one countries of the Caribbean area to realize productive investment projects by arranging financing for them. An established business is one with a position in the local community, a record of operating successfully, and a favorable reputation with banks, trade associations, and government. To be eligible for CPDF assistance, a firm must be substantially owned by nationals of one or more of the constituent countries. A productive investment project is one where commercial and technical feasibility have been demonstrated. It may consist of the acquisition of new facilities for a new

venture, or of the expansion or modernization of an existing enterprise. Excluded are refinancings, investments that do not result in at least incremental additions to productive capacity, and investments that do not have the support of the local government. Because of staff limitations, the Facility will not be able to offer assistance to small projects, i.e. ones requiring less than US $500,000 or its local currency equivalent, except in unusual circumstances. The services of the CPDF are available at no charge to companies which it accepts as clients. CPDF will concentrate its more intensive project development efforts on projects in the range of $500,000 up to $4-5 million.

The IDB has provided an estimated $8.0 million to IDAI for its lending activities over the past twenty years with minimal result (as previously discussed). A much more successful IDB project has been the Industrial Park Corporation (SONAPI) which is a GOH semi-autonomous agency for the development and management of the Port-au-Prince industrial park. The IDB has provided $3.5 million for the operation of this facility which is now at full capacity and has an extensive waiting list of interested companies looking for industrial sites. The GOH's new five year plan (1982-86) calls for the IDB's assistance in the expansion of the Port-au-Prince park and creation of new parks in the north (Cap-Haitien) and south (Cayes) at an estimated cost of $22 million.

The West German bilateral program has supported an industrial promotion project with ONAPI for the past three years. Under this project technical advisors and budgetary support is provided to ONAPI to implement an industrial promotion program to attract German and other European firms to Haiti. To date seven German firms have set up operations in Haiti as a result of this program. Current planning calls for the continuation of these activities due to Haiti's comparatively low wage rate, high labor productivity, and recepti business environment.

III. DETAILED PROJECT DESCRIPTION

A. Goal and Purpose

The overall goal of this project is to stimulate substantial industrial growth in both the manufacturing and agricultural sectors of Haiti, resulting in increased levels of employment and income. The proposed project will contribute to the achievement of this goal by promoting and facilitating domestic and foreign investment in Haiti, especially in agriculture-oriented processing industries and labor-intensive operations that maximize in-country value added to their products.

The purpose of the project is to establish a Development Finance Corporation to provide medium/long term capital and support services to investors for industrial projects in Haiti.

B. Project Objectives

The DFC will be a development banking institution which will provide capital as well as technical and financial services to clients involved in new or expanded industrial projects. Special emphasis will be given to regional projects, profitable projects with medium size investors, and investments with significant employment generating potential. The DFC will be characterized by a broadly based equity structure. No individual shareholder will be allowed to possess more than 10% of the common stock in order to avoid over concen ation of the capital in small groups. Highly qualified professional management will be recruited and assisted by international experts.

Project selection criteria will include economic viability/impact, availability of skilled management, estimated return on investment, direct employment potential, and foreign exchange earnings. Credit will be extended to both industrial and agro-industrial projects which meet the DFC's requirements. The DFC will be the link between the investor community, which is seeking to expand Haitian industrial and commercial development, and

international finance institutions. The DFC is expected to produce significant direct stimulation to the Haitian economy, primarily in labor intensive job creating-enterprises, as well as benefit those who receive loans from it.

Specifically the Project's objectives will be to:

1. Establish the DFC as a viable financial institution that will assist in meeting the credit needs of the private sector for new or expanded industrial projects.

2. Develop a loan portfolio (both in dollars and gourdes) of medium and long-term loans for industrial projects.

3. Create new employment opportunities in Port-au-Prince and the provincial areas for both skilled and unskilled workers, through the stimulation of new industrial activity.

4. Increase the number of small farmers selling produce to agribusinesses.

5. Increase foreign exchange earnings by financing new or expanded export industries.

6. Develop new investment banking programs aimed at tapping additional sources of funds for industrial lending (co-financing, etc).

7. Mobilize local savings through the development of investment programs for the DFC.

8. Provide support services to client enterprises to assure the efficient management of DFC investments.

C. The Implementing Institution

Following enactment of the proposed legislation, which is expected to occur in September 1982, the proposed investors will incorporate. Subsequent to governmental approval of the articles of incorporation, which should occur by early November 1982, shares of common stock will be sold to the contributors who currently have $650,000 on deposit in an escrow account. See the institutional analysis (Section V, D) for a more detailed description of the proposed DFC, including anticipated equity base and structure, the organization itself, the board of directors and the management and staff.

D. Project Activities

The DFC operations will entail the following activities: provision of medium and long-term loans, some equity investments, granting of guarantees, project development services, and client support services.

Based on the market survey interviews and a $200,000 lending limit assured for the first three years, it appears that the DFC can expect to receive loan requests averaging $155,000 (in 1981 dollars) during the first three years of its operations. The requests will range from a high of $200 from agroindustrial firms to a low of $30,000 from assembly operations. */ Likely profiles of typical loan requests for each of the three sectors, based largely on the impressions of the survey team and their knowledge of local industry, appear below:

*/ The higher limit reflected in the operating policies was determined after the completion of the market survey. Therefore averages may be higher depending on the number of loans over the normal lending limit of the DFC.

Agro-industrial loans Average size: $200,000

Loan to agroindustrial firms will be almost entirely for raw material and equipment purchases, with few loans for constructions. The working capital and construction loans will be predominantly Gourde denominated. Approximately half of all loans will be for dollars, though somewhat less than a third of these borrowers are net dollar earners.

Manufacturing loans Average size: $175,000

These loans will be primarily Gourde denominated loans for construction, and Dollar denominated loans for equipment purchases. This sector as a whole is, and will likely continue to be, a net user of foreign exchange, changing only as overseas markets are developed. It should be noted that, for the economy as a whole, import substitution through domestic manufactures will result in net savings of foreign exchange.

Assembly loans Average size: $145,000

Loans to assembly firms will be almost exclusively dollar loans to finance the working capital and equipment purchase of net foreign exchange earning operations

ADJUSTED AND UNADJUSTED LOAND DEMAND

TOTAL, AVERAGE, HIGH AND LOW

	Agro-Industrial	Manufacturing	Assembly	New Projects
Number of Firms Interviewed	9	13	10	32
Number of Firms with Need	2	4	4	7
TOTAL IDENTIFIED NEED FOR FUNDS	400,000	700,000	580,000	870,000
Average */	200,000	175,000	145,000	124,286
High	200,000	200,000	200,000	200,000
Low	200,000	100,000	30,000	50,000

Weighted Average Total Loan Size = $154,698

*/ Average of firms with stated borrowing needs.

1. Provision of Capital

a. loans

Lending money to private enterprises will always constitute the DFC's major activity. Loans for manufacturing and agribusiness projects will receive highest priority and the DFC will emphasize loans to projects that promise the highest impact on employment generation. Loans to enterprises in other sectors (tourism, trade, etc.) will have lower priority.

Although lending policies will be subject to continuous adjustment to reflect shifting economic conditions and market demand, it is anticipated that the following standards and criteria will guide the DFC's lending policies during its initial phase. The DFC's loan portfolio should be properly balanced with regard to risks, terms and sectors. The company will in its first years place more emphasis on loans with shorter terms (e.g. three-five years) and in the future, when its management will be more experienced, may shift this emphasis to longer-term loans. Given the present situation regarding sources of financing for Haitian companies, the DFC will aim at supplying the kind of funds that are presently not available. Short-term loans for terms of less than one year will remain an exception given that such financing can often be obtained from local commercial banks. Loan will have terms of up to 8 years, with a grace period of up to 2 years. They will bear interest at rates which approximate local market rates (presently around 16%). The average rate on the portfolio is U.S. prime plus a 0.85% in year one, this rises to U.S. prime plus 1.25% for years 4-10. The DFC will also ask for a closing fee of 2% in order to cover its expenses of processing a loan. The financial analysis section discusses the interest rates and terms in more detail.

Initially loans will probably be between US $50,000 to US $250,000, which will make the costs of these loans to the DFC relatively expensive. Loan size will probably average $135,000 over the first five years, and thereafter increase by a 10% inflation factor per annum. Loans will be secured by proper collateral.

Given the large industrial growth potential which exists throughout the Haitian industrial sector, the DFC's loan portfolio will be as diversified as possible and not restricted to one specific sector, e.g. agribusiness projects, as proposed unde the previous DFC project proposal. Under the current project design the types of operations which should be considered for financing are:

(1) exporters of goods manufactured wholly or primarily from local raw materials (agro-industry for example);
(2) exporters of goods with a mix of imported and local raw materials;
(3) exporters of goods from imported raw materials with at least a 25% domestic value added;
(4) producers for the local market with local raw materials;
(5) producers of import substitutes from imported raw materials with substantial domestic value added or cost savings;
(6) companies whose operation directly enhance the ability of other companies to earn foreign exchange (such as services for the tourist industry, a trucker of agricultural products etc.)

Where projects are of similar financial quality, the DFC should consider factors such as the amount of domestic value added, overall employment generation, geographic location, use of specific agricultural raw materials, environmental impact, employment of the unskilled poor, and employment of women

In addition to the above criteria, the DFC will limit the maximum size of loans to any one company or group of related companies to no more than 15% of its equity base. During the initial years, however, this limitation could be restrictive because the equity base will be small; e.g. 15% of $1 million equals $150,000. As the market study shows,there is a

substantial demand for loans in the $200,000 - 300,000 range. In special cases where the developmental aspects of the projects are particularly important, USAID will consider waiving the 15% limit.

A large percentage of the DFC's borrowers will require dollar loans to purchase goods and services from off-shore suppliers, and for loan repayments. The current foreign exchange shortage in Haiti is expected to continue to be a major constraint during the early life of the DFC and, therefore, the availability of foreign exchange will be critical to the DFC's operations. AID will provide dollar financing to the DFC for re-lending and the DFC core group is presently exploring the possibility of entering into a formal agreement with the Central Bank, which would guarantee foreign exchange access for the DFC customers. It is believed that such an arrangement is feasible and would be advantageous to both the Central Bank and the DFC.

In all cases, it is assumed that reasonable credit policies will be used to assure the safety of loans, including a thorough analysis of the project sponsor as to financial and moral integrity, as well as ability. A project financial analysis will also be required which takes into account suppliers, markets, labor, cash flow, leverage and other normally applied criteria. The DFC will require complete and regular financial statements from its clients, who will be encouraged to use independent auditors and follow internationally accepted accounting principles.

b. Equity Investments

The new law will permit the DFC to take equity positions in Haitian enterprises. The core group and project committee is fully aware of the dangers of making equity investments, and venture capital is not widely sought as most businessmen are unwilling to relinguish ownership to others. However, on the belief that these investments could play a valuable role in Haiti, it is anticipated that the DFC could make a limited number of equity investments after 4-5 years of operations. These investments were not

accounted for in the financial projections as dividends and capital gains would not be likely for several years after the investments were made, making income projections highly speculative. If the DFC does begin to selectively make equity investments, it might consider establishing a separate subsidiary as was done by Financiera Dominicana to accomodate the risky nature of these venture capital investments. The DFC will only take minority equity positions, e.g. between 10 to 30%, and a divestiture plan will accompany any such investments. The investor group might represent one such source of buy out purchasers.

c. Guarantees

The DFC will consider providing a limited amount of guarantees to other lenders on behalf of companies who cannot quite meet the leverage and/or collateral requirement of such lenders. Although such cases will probably put the DFC in a risk position between the lender and the equity investor, the business, if available, and if each case is fully controlled by the DFC, could prove attractive as fees will be earned without DFC assets being invested. The financial analysis provides for only minor amounts of guarantees due to the lack of information as to the potential for this type of business.

d. Limitations on DFC Activities

Specific restrictions will also govern DFC investment activities financed by A.I.D. The project agreement will specify that unless A I.D. agrees in writing:

- Investments in excess of 15% of the DFC's equity will not be made to a single sub-borrower or a group of related sub-borrowers.

- Loans or equity investments and guarantees may not be made to businesses in which any officer or employee of the DFC or their immediate family has a financial interest.

- Equity investments will not be made during the first three years of operation.

- Equity investments will not exceed 5% of the DFC's invested assets or 20% of the DFC's equity, which ever is lower.

The demand analysis does not indicate that any investments would finance sugar, citrus or palm oil for export. It is possible, however, that such sub-projects could be identified in the future. If so, they will not be financed with A.I.D. funds.

2. Project Development Services

The problems encountered to date in attaining the re-discounting goals originally envisioned by the World Bank supported Industrial Development Fund (FDI) are apparently related to a lack of sufficient project development services for prospective clients. A recent evaluation of the operations of the FDI stated that the absence of knowledge and experience in the business and banking community concerning the concepts of long term operational analysis is one of the principal constraints to their ability to process loan applications. The information requirements of the FDI, not unusual for the sound evaluation of long term loan applications, have tended to discourage the potential borrower who is not accustomed to such requests for data. Not surprisingly these findings are corroborated by the management of the international commercial banks in Haiti who have, among other problems, encountered almost a general absence of credible financial statements upon which credit officers can base their analysis. The information submitted is not necessarily done in bad faith, but is the result of inadequate accounting systems. The collective experience discussed above demonstrates a tradition of business practices in Haiti which will be an obvious area of concern for the DFC's management. Such a tradition could limit the DFC's effectiveness unless a strategy for addressing this data gap is incorporated into its organizational structure and supported by appropriate levels of technical assistance. The credit analyses conducted by the DFC will entail more than

the analysis of financial statements. The information required will in many instances go beyond the capability of the prospective borrower who may not have the organization, understanding or "interest" in discussing production planning, marketing, cost accounting, and other issues which appear to be off in the future.

By the very nature of its loans, which involve higher risk term lending, the DFC will need in-house capacity to assess and structure projects. Applicants for financial assistance will seldom be in a position to submit a thoroughly researched project. The DFC's response in the absence or inadequacy of information should not be passive. Without compromising its objectivity, the DFC can involve itself to a certain extent in the analysis and design of a project. An active collaboration with the established business community in the initial years, to be broadened to include new entrants, will be absolutely necessary to achieve the developmental goals of the institution and critical to the building of a sound portfolio. By becoming involved in certain projects at an early stage of development, the DFC may ensure their success and, correspondingly, the high quality of the DFC's portfolio.

The DFC should play a major role in attracting foreign investors to Haiti by becoming instrumental in putting together various types of joint ventures. The DFC could facilitate such arrangements between Haitian promotors, investors, Haitian financial institutions, a foreign partner, and the DFC itself. By virtue of the quality and range of its shareholders the DFC will be in an excellent position to assume this catalytic role. Initially, contacts with foreign companies will be made as the need arises through specific projects. Later on, the DFC might choose to promote such joint ventures more actively.

3. Client Support Services

Loan administration or loan supervision is one of the key components of development banking. This function serves to protect the health of the loan portfolio as well as the projects financed, and is primarily

concerned with the implementation of the loan agreement and the monitoring of the project through the life of the loan.

Borrowers of the DFC will be required to submit on a regular basis information deemed critical to the success of the project being financed. This information, together with frequent personal contacts will enable the DFC to detect trouble (and opportunities) in the early stages of development and to avoid costly surprises.

As a result of the loan supervision activities, the DFC will be in a position to assist its borrowers in developing their technical and managerial skills. These activities would be similar to those performed by LAAD on behalf of its borrowers, or commercial banks in the United States with its smaller borrowers. Such "trouble shooting" services will allow the project to continue operating smoothly or to overcome specific bottlenecks which can occur in the marketing, production or other areas.

4. Technical Assistance for the DFC

Three aspects of the DFC's activities call for outside assistance: a) the day-to-day start up and management of the company; b) the analysis of particular projects, including the project development services to be provided to clients as described previously; and c) the supervision/monitoring of loans and investments. A senior advisor (24PM), a project analyst/credit specialist (24 PM) and a loan administration specialist (24 PM), will be contracted to assist with these needs. */ The long term advisors will be supplemented by short term consultants who will provide technical expertise for specific sub-projects.

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*/ Refer to Annex K, "Technical Assistance plan" for proposed contracting plan and scopes of work.

The DFC will require advice on establishing policies and procedures for its internal operations, as well as its practices regarding investment appraisals and approvals. A proper internal accounting and financing system will have to be set up, and the DFC's staff will require training. The DFC's investment analysts will probably not possess enough technical expertise to adequately evaluate the economic and financial prospects of all potential projects. The long term TA advisors will train DFC staff and assist clients in appraising their projects. Short term foreign and local consultants will be relied upon for specialized needs.

The advisors and ultimately the DFC's staff itself will be involved in a variety of project identification, preparation, appraisal, implementation and to some extent training activities, as there is an absence of knowledge and experience in the banking and business community concerning the concepts of long term credit analysis. Longer term planning in an operational sense is rarely done, and few businesses in Haiti have a business plan beyond 3-6 months. Critical to the development of a large, sound portfolio for the DFC, and to the economic health of the country, will be the development of managerial capabilities within Haiti's industrial community.

An additional facet crucial to the long-term success of the DFC will be its ability to follow the implementation/operation of its loans and equity investments in order to anticipate problems and facilitate solutions. Initially, the ability to problem solve for a wide variety of industrial enterprises (as the portfolio of the DFC grows) will not be found within the DFC's own internal resources. Although all TA advisors will have a role in investment monitoring, special attention to this aspect and training of DFC staff will be carried out by contracting a loan administration specialist in year 2 of DFC operations.

5. Training

Training activities will be directed principally to the DFC staff through on the job training provided by the TA advisors, as well as short term course work in project appraisal, credit analysis, and

international finance. Due to the low level of project analysis capability in the industrial sector, some training will also have to be directed toward clients, so as to upgrade their managerial abilities and to better insure smooth project implementation loan repayment. Clients training will be carried out by DFC staff, the TA advisors and also in a limited way through short term in-country seminars. Follow-up efforts would most likely be managed by ADIH and could be extended to non-DFC clients. While the DFC training effort is experimental in nature, the costs are modest and it should not be seen as detracting from the main line business of the DFC. It is instead a recognition that this training is needed by the business community, and will in the long run enhance the prospects for the DFC's success.

E. Repayment Plan: The Trust Fund

A condition precedent to disbursement will be included in the Project Authorization and Project Agreement which calls for the establishment of this trust fund. This mechanism will be a means of providing direct support for other private sector activities which will strengthen the managerial and technical capacity of the business community and contribute to the support of entrepreneurial drive in Haiti.

A special account will be opened at a local commercial bank in which both the interest and, after the grace period, principal payments will be deposited. Either an international bank(s) or local bank(s) may be used for this purpose at the discretion of the Board of Directors. The payments into the thrust fund will be in Gourdes. At the end of the third year of the DFC's operation approximately $250,000 will be available for programming/utilization. An incremental amount (estimated $200,000) will be paid in annually for the next seven years. Thereafter, the payment increases to approximately $595,000 and reduces gradually to $215,000 in the twentieth year.

The monies in the trust fund will be used to finance private sector development programs that will be mutually agreed upon by AID and the DFC's Board of Directors. Once the DFC becomes operational, formal proposals will

be developed and funds will be disbursed to independent private sector organizations for specific projects which have been analyzed by the DFC's Boards and approved by AID.

The trust fund mechanism is an unusual procedure, as normally grantees are not required to repay their grants. In this case the DFC will repay the $4 million in investment capital, over 20 years plus an annual interest charge of 5 percent into a fund held in trust by a bank. In order to assure that repayment is made, the grant agreement will not terminate until repayment of the investment capital ("principal") and interest is completed. In effect AID, as it does in loan agreements, wil have a twenty year contract with the DFC. Should the DFC fail to comply with the terms of the agreement (i.e. fails to meet its repayment obligation), AID will have the right to require immediate payment of unrepaid "principal" plus any accrued interest. The effect of this "acceleration" would be to put the DFC in default of their agreement, at which point other debtors could be notified. Without this type of an agreement AID would not have any powers of enforcement should the DFC chose not to comply.

IV. FINANCIAL PLAN

A Use of A.I.D. Funds

The $5 million A.I.D. grant will be provided for sub-project investments, technical assistance and training as discussed below:

- $4 million will be used for subprojects in the form of debt or equity investments. These funds will be used by clients for the foreign exchange and local currency costs associated with the acquisition of equipment, the pourchase of raw materials, the construction or refurbishing of plants, and the provision of permanent working capital.

- $1 million will be used for TA and training as shown in the following table:

B. BUDGET
($000)

		Years 1	2	3	4
1.	T.A. Program				
	a. Staff				
	Senior Advisor	125	125	-	250
	Loan Evaluation Specialist	90	90	-	180
	Loan Administration	-	80	80	160
	Short-term Specialists	45	45	45	135
	Sub-total - staff	260	340	125	725
	b. Staff Support				
	Bilingual Secretary	15	15	-	30
	Vehicles (2)	20	-	-	20
	Sub-total - Support	35	15	-	50
	c. Executive Search 1/	35	-	-	40
	Sub-total T.A.	335	355	125	815
2.	Training Program				
	a. Project Analysis Seminar	15	15	20	50
	b. Banking Practices Seminar	5	5	5	15
	c. International Banking Seminar	5	5	5	15
	d. Client Orientation and Training	-	25	30	55
	Sub-Total - Training	25	50	60	135
3.	Contingency (5%)				50
	Total Program				1,000

1/ Based on estimated fee of 1/3 base salary of seior advisor plus expenses.

PROJECT SUMMARY

($000)

	A.I.D.	D.F.C.	TOTAL
Equity		$1,000	$1,000
Investment Capital	4,000		$4,000
T.A.	815		815
Training	135		135
Contingency	50		50
Total	$5,000	$1,000	$6,000

V. PROJECT ANALYSES

A. Financial Analysis

Given a moderately stable political and economic environment in Haiti, the ultimate financial success of a development finance company in Haiti will depend upon three crucial factors. First, there must exist, or be reasonably expected to develop a market of sufficient size and quality presently unserved and/or underserved by existing financial institutions. Second, capable management must be available to properly organize and manage the company under potentially varying and risky environments, paying particular attention to controlling costs per dollar of loans outstanding. Third, the cost of capital to the DFC must be on average low enough, and the rate on subloans high enough to allow a sufficient margin for coverage of all non interest expenses (e.g. administrative expenses), plus a reasonable profit. The latter is especially important for the development of an initial investor group, and for establishing the basis for raising additional amounts of equity capital in the future.

Based on the projected market demand for the DFC's loan capital it is estimated that the DFC will have an outstanding loan portfolio (after repayments) of $11.8 million by the end of the fifth year of operation. This level of lending is more than enough to utilize the equity of the firm, the proposed $4 million in AID funds and $5.5 million of additional financing. As discussed in the Project Rationale Section (II. B.4) an extremely conservative method of determining the demand, for capital was used, and therefore there is little doubt that the DFC will have a sufficient market for its loans. In spite of this, sensitivity analyses were conducted that allow for significantly reduced volumes to show how much further demand could drop before impairing the viability of the DFC.

A computer model was used to produce a base case (or most probable) financial projection of the DFC over ten years, and to do a sensitivity

analysis of key variables which would affect their DFC's performance. A detailed description of how the model operates is included in Annex L, Exhibit 1. In summary, the model allows the programmer to input:

a) ten year level of market demand met by the DFC broken into four portfolios, in order to allow differential pricing on loans;:
b) the maximum level of USAID financing at a given rate;
c) amounts of guarantees given;
d) loan, interest rates and guarantee fee rates;
e) provisions/losses on loans and guarantees;
f) fixed asset purchases and depreciation;
g) operating expenses;
h) rates on additional borrowings above the USAID loan;
i) rates on fixed time deposits;
j) the grace periods and repayments periods of sub-loans;
k) a dividend rate;
l) a ten year prime rate projection (fixed deposit, outside borrowing and subloan rates are floating at a set spread over or under prime)
m) an annual maximum debt/equity ratio (which forces the program to raise additional amounts of paid in capital in order to maintain the ratio in light of the market available to the DFC); and,
n) an opening balance sheet.

The computer then generates ten year balance sheets, income statements, sources and uses of working capital statements, and analysis ratios.

The anticipated annual volume of sub-loans made by the DFC is as follows for the base case scenario:

Year	(1983) 1	2	3	4	5	6	7	8	9	10
Loans Made ($000)	630	2,060	3,548	4,327	5,027	5,839	6,783	7,878	8,794	9,675

1 The Base Case

The base case financial projections in Annex L Exhibit 2 reflect the performance of the DFC OF Haiti under the set of assumptions what we believe most likely approximate the expected future external environment and internal operating efficiencies of the bank during the years 1983 through 1992. These underlying assumptions are discussed below. While the base case analysis is developed from our best estimates of the DFC's future market and capabilities, it is important to recognize that the term of the projection period and the volatility of many of the key variables (such as interest rates) make even the best estimates uncertain. In the sensitivity analysis section which follows the discussion of the base case results, we have quantified the impact of changes in those variables considered to be either highly uncertain, critical to the success of the DFC, or indicative of the effects of policy options currently under consideration.

a. Base Case Assumptions

Loan Portfolios

Because the DFC will have the flexibility to set the terms of its loans to meet the needs and merits of each project (within the boundaries established by its management and charter), four separate sub-lending portfolios have been provided for in the financial model.

The total of the four portfolios is determined by the base case loan demand to be met by the DFC, as shown earlier.

In the base case, the interest rate charged on each portfolio distinguishes one from another, though the grace period and repayment period of each may be set independently. Presently, for the base case, all loans in year 1 and 2 are for five years total term including a one year grace period on principal interest and payments. From year three the loans are for six

years including a one year grace period. The rates on these four portfolios and the percentage of total loans made in each portfolio appear below.

Sub-Lending Portfolio	Rate (basis points over or under U.S. Primes	Percentage of Total Loans Made in Year 1	2	3	4-10
1	+2	50%	60%	65%	70%
2	0	40%	30%	25%	20%
3	-1	5%	5%	5%	5%
4	-2	5%	5%	5%	5%

Lending Rates

It is assumed that the DFC will lend at floating, rather than fixed rates because it will ultimately have to borrow a substantial amount of money at floating commercial rates. It may decide to lend at fixed rates from its fixed rate sources of funds, and at floating rates from the remaining sources, but it will in any case have to be aware of average spread over its cost of funds. Given fluctuations in lending rates, a floating rate on sub loans seemed more reasonable for this analysis. In general, local rates tend to follow the U.S. prime rate with a moderate time lags being the norm. Market rates are justified on subloans due to the increased term risk level, availability of dollar financing, rapidity of response, and potential technical assistance offered by the DFC. The increasing percentage of loans made under the terms of portfolio one, the highest rate portfolio, reflects the need for the bank increasingly to price its loans over its marginal cost of funds, when higher cost market rate borrowings increase in later years as a percentage of the their total loanable funds. Once the AID loan and the fixed deposits have been fully drawn down, the rates earned on portfolios 2,3, and 4 (prime, prime -1% and prime -2%) are very close to the DFC's marginal cost of funds. The narrow gross interest margin on these portfolios, does not cover the related operating expenses and loan loss provisions and, therefore, limits the DFC's ability to lend large amounts at these discretionary interest rates without jeopardizing its long term viability.

Loan fees

The base case projections provide for loan fees of 2% of the amount of each loans, received when funds are disbursed. At this level, loan fees approximate the direct costs to the DFC of appraising an average size loan. The true annual cost of borrowing is increased by less than o.6% by these fees over the life of a six year loan. It should also be noted that a 2% fee is below the average charged by a successful DFC in a neighboring country.

Provision for Losses and Loan Charge Offs.

Because we expect that the DFC's loans will be primarily intermediate and long term, and often to new ventures, the bank will be assuming greater credit risks than other Haitian private lenders. To incorporate the cost of this additional credit risk, we have established an annual loan loss provision of 1.5%, and net chargeoffs of 1% (chargeoffs are taken 2 years after the provision is made) in our base case. For comparison, the loan loss experience of 18 regional U.S. commercial banks over the years 1975 to 1981 averaged between .272 and .51%, and had highs within those averages up to 1.47%. It is important to emphasize that higher loss rates for the DFC are anticipated due to the nature of the loans to be made by the DFC, and the economic and political environment of the country, but they presume the establishment of prudent and responsible lending policies by the DFC.

Fixed Deposits

Time deposits in local financial institutions will arise in the early years of the DFC as subloans are to be first funded dollar for dollar from concessionary loan sources,thus allowing equity and loan repayments to be placed temporatily in local short term investments. Once the concessionary loan sources are fully utilized, these fixed deposits are used to fund loans before any market rate borrowings by the DFC take place. Any DFC funds carried in fixed deposits earn a rate of prime - 3%, based on large-deposit rates prevailing in Haiti at the time of this report.

Sources of Loanable Funds

USAID Loan

A $4 million AID loan* with a term of twenty years, a ten year grace period on the repayment of principal and an interest rate of 5% is assumed, with an additional $5 million available on the same terms in the third year. This $9 million fund will be drawn down by the DFC to fund new loans made in each year until the limit is reached. Both interest and principal payments on the AID loans will be paid into a trust fund to be administered by USAID and these amounts will be available for funding future A.I.D. projects in Haiti. While USAID may not itself provide the additional $5 million, there will likely be a need for additional concessionary financing.

An interest rate of 5 percent is considered an appropriate level for AID's capitalization of the Corporation. Under the base case projection, this interest rate will provide the DFC with an average gross margin of about 10 to 11 percent over the cost of the AID loan. However, interest on other loans, operating expenses, and loan losses will reduce this margin, leaving a net margin or yield on the entire portfolio of about seven percent in year five and dropping to 4.3% by the tenth year.

This base case projection allows the DFC to increas its retained earnings to $1 million by the fifth year of operation. Should the prime rate fall, administrative expenses increase, losses increase, or past due payments on loans grow, the margin will be squeezed and the contribution to retained earnings reduced. The reduction in equity, in turn, limits the amount of funds available to invest, and in future years will limit the ability of the DFC to obtain additional debt or equity.

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* Although the AID capital will in fact be grant funds these monies will be repaid into a special trust fund, and as such in this analysis will be considered to be a loan.

Due to the uncertainty of the prime rate and therefore the rate at which the DFC will be able to lend, the high administrative expenses in its early years of operation and the financial prudence of augmenting the equity base of the DFC as rapidly as possible, the 5 percent interest rate on A.I.D. funds is considered reasonable.

The presumed need for a follow-on A.I.D. or other donor loan is also reasonable, as a strong case can be made at this time for an additional $5 million loan by the third year. The market demand is high and the DFC will require a base of investment capital of more than the available $4 million if it is to grow, prosper and properly serve its clientele. Further, access to commercial monies may be difficult, as the DFC will still be a relatively young organization and probably will have experienced losses during its initial years. The terms of this follow-on loan can and should be debated at some point in the future. However for the purposes of the base case, terms and rates identical to the AID loan were used.

Other Long Term Debt

Once the USAID loan and fixed deposits have been fully drawn down, the DFC is expected to seek funds from private sources. Though these funds may be provided by a variety of financial institutions (both bank and non bank), in the base case we have structured the DFC's other long term debt based on terms likely to be offered to the DFC by a commercial bank.* This private market long term debt is priced at the prime rate plus 1% which is close to what another regional agribusiness DFC pays for commercial bank credit, although it is not certain that DFC in its early years will be able to obtain this low rate. We have assumed no specific loan covenants (such as dividend restrictions or seniority requirements).

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* This assumption should not be understood as implying that additional funds on a concessionary basis should not or could not be sought and obtained, but for the purposes of the base case a $9 million limit on concessionary funding seemed reasonable and conservative.

Debt/Equity Limitation

Rather than allow the DFC's debt to equity restrictions * to limit the DFC's lending volume, we have assumed that the DFC raises additional equity capital in those years where the debt to equity limitation is a constraint. Additional paid in capital is raised in increments of $100,000 until the target lending volume may be satisfied within the leverage limit. It is, however, recognized that additional equity may not always be available and in such cases, the lending volume of the DFC may be restricted. The debt/equity ratio was set initially at 5/1 which is in line with other regional DFCs. The higher limit in later years allows the DFC to service a larger portfolio than shown or to service the one shown with lower earnings.

Dividends

Dividends may be paid in the second of any two successive years of profitable operations. The amount declared and paid is equal to 10% of that year's profit, which is consistent with the 10% maximum allowed during the first ten years in the loan agreement covenants. Note that dividends may be paid even when the debt to equity limitation is a constraint. It was felt that if the DFC was prevented from paying dividends when additional capital was required, it might be unable to market its stock.

Guarantees

The DFC will have the ability to make partial guarantees to other creditors on behalf of borrowers who are close but not quite able to meet the borrowing requirements of other financial institutions, but still satisfy the requirements of the DFC's risk analysis.

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* 5/1 in years 1-5, 6/1 in year six, thereafter 7/1 in year seven, 8/1 in year eight, 9/1 in year 9 and 10/1 in year 10.

Guarantee fees equal to 2% of the amount guaranteed will be charged, but in the base case we have provided for losses against these earnings equal to 0.5 % of the guarantee amount, charged off 2 years after the fees are received.

Due to the uncertain level of requirements for such guarantees, the amounts have been kept to a minimun level beginning in year three, rising to $194,000 of new guarantees by the 10th year. We have also assumed that the guarantees are outstanding for one year, given the short term nature of credit from commercial lenders in Haiti which will most likely be the source for guarantee requests.

Prime Rate Forecast

The ten years forecast for prime is at 14%, 15% 15.25%, 15.5%, 15.25%, 15%, 15%, 14.75%, 14.75% and 14.75%. Due to the lack of any published forecasts (none were available from AID/Washington. The Federal Reserve Bank of Boston, or the U.S. Treasury, Department), and given the acknowledged imperfections of any others which could have been purchased from economic forecasters at only a high cost, it was decided to use an expectations approach analysis to forecast prime. Under this approach the market for U.S. Treasury Bonds over the next ten years is an indication of future Treasury Bill rates and, by extension, prime rate for each of the ten years.

Operating Expenses

Operating expenses, also referred to as General and Administrative Expenses were developed for the first five years and are presented in the Institutional Analysis. Section V.D. These totals were used in the base case, and inflated by 10% per annum for the next five years.

Taxes

No provision is made for taxes, consistent with the law for creation of the DFC which exempts it from taxes of any sort during the first ten years of operation.

b. Base Case Analysis

The resulting balance sheets income statements,funds flows, and analyses statements for the base case are shown in Annex L, Exhibit 2. It is clear that under these assumptions, the DFC would be a highly profitable organization, breaking even early in the third year, with high rates of return on assets (fropm 3.8% to 6.9% during the first eight years after break even). Leverage only approaches five to one during the fourth year, and thereafter declines due to a combination of the high retained earnings level, and the size of subloan portfolio which the DFC is able to handle given its institutional constraints. The DFC has a peak return on equity of 37.5% in the fourth year, and it thereafter declines to 17.5% in the 10th year as earnings inflate the equity base and leverage declines. Of course, in the case of Haiti, where investors require substantial premiums in light of high political and economic risk, rates of return in the range of 25% - 35% are not considered excessive.

The internal growth rate of capital, a measure of internally generated capital growth prior to payments of dividends, reaches a high of 45% in 1986 before dropping to 19% in 1992. Other development finance companies in the region presently have internal growth rates of capital in the range of 10 - 15%.

The primary reasons for the healthy earnings (as shown by the high returns on assets) is that the DFC has available to it a substantial level of share capital, retained earnings, and concessionary loan financing, which total $10.8 million by the fourth year at an average cost of 4.2% per annum. The loan portfolio of $9.0 million at that point, plus the fixed deposits of 1.8 million, has a combined average (including fees) gross return of 16.8%, giving a net operating income of 12.6% on invested assets. With operating expenses equal to about 6.2% of invested assets in year four, the net yield to the DFC is 6.4%. In other words, in the fourth year though not earlier, the DFC could absorb increased borrowing costs of about 7.7% on the concessional borrowings, or reduce its sub loan rates by about 6.4%, and still be able to break even.

After year five, when outside borrowing begins to take place at rates of prime plus 1%. this net yield begins dropping, reaching 4.3% by the tenth year.

After the tenth year, which is beyond the term of this analysis, a number of scenarios can occur. As the concessionary financing is paid off, the average cost of funds begins to rise, reducing the net yield. However, if the DFC is able at that time to raise additional amounts of concessionary financing, or if they increase their spreads over prime on their lending portfolios, they could maintain their net operating income margin at current levels. They could also reduce their loan portfolio as loans are repaid, thus lowering the need for additional amounts of market rate financing. The figures also show that if there is a much larger market after the fifth year, and if the DFC were willing to increase the size of its staff, it could borrow additional outside funds to support a larger loan portfolio, while still remaining within the debt to net worth limits. However, its net operating income margin and returns on assets will drop with every dollar of increased loan at average base case rates, assuming full allocation of administrative costs. Once market rate borrowings are required by the DFC' it will always face a trade off between lower return on assets (and at some point lower return on equity), and limiting the size of the market they serve. The only other alternative is to increase the spread over prime on their portfolio.

The net operating income margin of the DFC (interest and fee income less interest costs) must be at least 6.2% in the fifth year and 4.5% in the tenth year in order to break even, given the loan provision of 1.5% and a declining administrative cost from 4.7% to 3.0%, plus small guarantee losses and depreciation.

With only a portion of the loan loss provision in each year used against actual write offs, and given the two year lag, the loan loss reserve does grow to 3.0% by the fifth year and 4.4% by the tenth year. While this is more than sufficient if the charge off rate does not go much above 1.5%, it should be noted that, at the moment, other regional development finance companies with equal average charge off rates have reserves of 5% to 7% and are considering increasing them.

As mentioned in the model description, the model forces increases in minimum amounts of $100,000 in the paid in capital in any year in which the debt to equity ration would otherwise be exceeded. In the base case, this happens only in the third year, in a $200,000 amount, and is due to the large increase in loans made that year, prior to reaching a positive earnings position.

2. Sensitivity Analyses

Introduction

The sensitivity analyses disscussed below are intended to summarize the effects of changes in one or more variables that: (1) were determined through the base case analyses to be critical to the financial success of the DFC; (2) are highly volatile and therefore unpredictable external factors, and (3) illustrate the impact of various operating policy options. The tables in Annex L Exhibit 3 are an integral part of this discussion, and are also melant to provide easily reviewed summaries of all the cases. For this discussion four key sensitivity analyses were selected which demonstratee critical scenarios. Four other sensitivities of further interest are presented in Annex L, Exhibit 4.

(a) Prime Rate Reduction to 10%: 1982/14%, 1984/13%, 1985/12%, 1986/11%, 1987-1992/10%

Despite the fact that the DFC's marginal net spread over the cost of other borrowed funds is unchanged, its average net spread is decreased because sub loans will be at a lower spread over the fixed rate A.I.D. borrowings as the prime declines. This results in a substantially lower (negative in 1992) internal growth rate of capital, which forces the DFC to raise additional share capital to remain within the debt to equity constraints. Greater commercial borrowings are required because the DFC's earnings represent a far smaller percentage of its total loans than under the base case where the debt to equity ratio is less of a constraint. Note that under this scenario, the

DFC would be trying to market additional share capital based on a poor history of dividends and earnings. As a variable rate lender with substantial fixed rate funding, the DFC will have difficulty managing its average net spread and return during periods of declining rates. If the DFC were a fixed rate lender, it would do better as rates declined but worse as rates rise. However, demand for term loans might be less during periods of prime rate decline if potential borrowers foresee even lower rates.

(b) 25% Decrease in the Total Market for DFC Funds

The decrease in market has no impact in years 1983 and 1984 as the capacity of the institution is still the binding constraint. During the period 1985 to 1987, the DFC's net yield suffers because lower loan volumes give them less of a base oiver which to spread their administrative costs (assumed to be the same absolute dollar level as under the base case). However, in later years, the DFC's net yield on its loan portfolio improves because at lower loan volumes, the comparatively high priced commercial borrowings (which do not begin until 1987) make up a smaller percentage of total borrowed funds; while the marginal net yield is unchanged, the average yield is improved.

The impact on the DFC's ability to provide its own capital internally follows much the same pattern, and this forces the DFC to raise additional equity (over and above the base case) in order to remain within the debt to equity constraint in 1987, despite the reduction in total loans outstanding. After 1987 the DFC does not even approach the debt/equity limitation. Although a significant reduction in market size has some adverse effect in early years, it should be noted that the DFC could improve its performance under a reduced loan volume scenario by reducing its staffing and overhead levels as appropriate. This analysis highlights the fact that as the market size increases, the DFC may actually do more poorly than under the base case unless additional source of concessional funding or equity are found.

Assuming that administrative costs do not decline, a 60 -75% reduction in actual loans outstanding would have to occur for the DFC to have an average break even level of earnings during the fourth through sixth years, and approximately 45% reduction wouild have to occur for the entire ten year period.

(c) Administrative Expenses Increased 10% Over the Base Case

Greater operating expenses have an immediate impact on the bank's earnings. This in turn lowers their retained profits, which necessitates increased borrowings, all of which have a cumulative though minor (5-11%) negative impact on earnings in the last six years. As the loan portfolio is built up, increased costs have less and less effect on earnings, as they are spread over a larger loan base. Under this scenario the DFC requires $100,000 more in paid in capital in 1985 and $100,000 again in 1986 (over and above the base case) to remain within its leverage restrictions, and must slightly increase its commercial borrowings to meet its borrowers demand for funds.

(d) $4 million A.I.D. Loan

Under this scenario, the total concessionary loans is reduced to $4.0 million instead of the base case $9.0 million. Although the DFC marginal net spread over the cost of commercial bank borrowings is maintained at the same level as under the base case, the bank's average net spread is greatly reduced in each year after 1985 when commercial bank borrowings begin (two years earlier than under the base base). The greater proportion of high cost commercial borrowings to total loanable funds, through the impact on average net yield, results in a substantially lower internal growth rate of capital, which eventually becomes negative in 1992. Furthermore, in order to remain within its leverage limits, the DFC must raise additional share capital in the years 1985, 1986, 1987, 1991 and 1992. Beyond 1992, the DFC would likely consume increasing amounts of its equity to finance operating losses, unless it severely restricted the size of the market it chooses to serve, yet it would face difficulty in raising equity due to its poor earnings performance.

3. Summary

Except under the very worst of conditions, the DFC is a viable institution if measured by a positive return on assets and equity. However, it should be noted that under conditions of a low prime rate, or minimal concessionary funding, the nominal returns on equity are below the prevailing 10% predicted rate of inflation, thus yielding a negative real return on equity. Furthermore, in the context of Haiti, very high premiums are required to offset political and economic risk (25%-30% nominal return on equity is common). As the DFC is forced to go to the commercial market for funding of its portfolio, its return on equity drops well below this level by the tenth year, even in the base case. This will have an effect on the ability of the DFC to raise additional amounts of paid-in capital in the future, unless additional concessionary funding is obtained, or net average lending margins are otherwise improved. If equity can't be raised there is ultimately an effect on the size of the market which the DFC can serve.

The decrease in prime rate to 10% has the greatest effect on the results of the DFC although the probability of this may be lower than other sensitivity changes from the base. This change in prime reduces the margin the DFC obtains over the use of USAID funds, although it can be offset by the DFC to the extent that they are able to increase the margin over prime which they charge on their subloans.

A reduced level of concessionary funding, as illustrated by the $4 million USAID loan sensitivity analysis, would have an important effect on the DFC operation. A decrease of this size in concessionary funding severely affects the average net margins, and can only be offset by reductions in the size of the market served, and/or by increasing the interest rate margin over prime on the subloan portfolio to the extent possible, consistent with a desired portfolio size.

A 25% decline in demand for DFC credit would have a negative but minimal impact on the DFC. A 25% drop in loan volume during the first three years, reflecting greater difficulty than expected in the start up phase, produces losses of approximately $92,000 in the first year, $77,000 in the second, and a profit of $57,000 in the third. Although total net earnings for the three years are about $220,000 below the base case, the absolute level of the decrease is not enough to impair the future viability of the DFC, so long as the loan volume increases in the following years, or administrative expenses are reduced in line with reduced loan volumes. However a reduction of 40-50% in actual loans outstanding with no related decrease in staffing costs, would have a serious negative effect in that this level of activity is an approximate break even point. The effect would be similar to doubling the administrative expenses with no increase in loan volume. Neither market size, nor level of loans outstanding are totally influenced by policy decisions, but by a combination of the effects of the local and international economies, the interest rate, terms, risk level and other lending policies of the DFC, and the impact of technical assistance programs.

B. Economic Analysis

This project will establish a DFC to provide medium and long-term credit and a broad range of investment services to investors in Haiti. The increase in funds available for private sector investments, especially in agro-industries and labor-intensive operations, is expected to create employment and increased incomes for the underemployed poor majority of the population. The economic soundness of the proposed project will be determined first through analyses of the impacts of the project on investment, employment and earnings, gross domestic product and the balance of payments. The econonic costs of the project will then be compared with the benefits to determine the project's net contribution to real income and welfare.

1. Economic Impact of DFC Activities

a. Impact on Investments

The dynamic growth of private investment is fundamental in order to achieve sustained and sustainable increases in the productivity and incomes of Haitian urban and rural poor. Haiti has the potential to develop numerous agro-industries due to the underdeveloped state of this sector and the growing demand for processed goods and food within Haiti, especially from the growing urban population. Similar opportunities exist for small-scale enterprises in all sectors, and for labor-intensive assembly export industry. The latter, after spectacular growth over the last decade, now provides livelihood for about 25 percent of the 1 million population of metropolitan Port-au-Prince. Continued investment in the re-export industry is crucial in terms of its employment and income generation potential. Further, its work force constitutes a significant source of demand for agriculture and agro-industrial projects. Private enterprise in these areas contributes value added to agriculture, to increased employment and income, to a better market for agricultural products, and to scarce foreign exchange. A healthy, expanding domestic private sector is also essential to attract foreign private investment.

While the potential for continued expansion and development of industrial enterprises in Haiti remains great, with profits in the 30 to 50 percent range,1/ investors operate in a very difficult financial environment. The limited availability of medium and long-term funds from commercial banks, shortages of foreign exchange, and inefficient procedures and limited funds of development finance institutions often effectively block investments.2/ Hence, the DFC may realistically be expected to serve as a catalist for net increases in private investment in Haiti.

1/ IDB, Opportunities for Industrial Investment in Haiti, May 1979,

2/ See the earlier discussion on constraints to private investment, Section II. A.2.

Based upon the initial availability of $5 million in A.I.D. loan funds and $1 million in DFC equity plus an additional $5 million in concessionary financing in 1985, the DFC will be able to accomodate projected loan demand over a ten year life of the project as follows.

Projected Gross Loan Volume ($U.S. 000's)

1983	630
1984	2,060
1985	3,548
1986	4,327
1987	5,027
1988	5,839
1989	6,783
1990	7,878
1991	8,794
1992	9,675

These net additions to the flow of loanable funds in Haiti represent but part of new investment that should be expected to be facilitated by the DFC. Equity financing typically represents 70 percent of total project financing in Haiti. In addition, it should be expected that many projects, once they have obtained DFC financing, will become eligible for commercial bank financing that would not otherwise be available. 1/ It is conservatively assumed for the analyses that follow that the combination of equity and other financing match DFC financing on a one-to-one basis. Hence, new gross investment in constant dollars is projected to be as as follows over the period 1983-1992:

Gross Investment Attributable to the DFC
(1982 U.S. $000's)

1983	1,146
1984	3,404
1985	5,330
1986	5,910
1987	6,244
1988	6,586
1989	6,960
1990	7,358
1991	7,458
1992	7,470
Total	57,866

1/ Commercial banks have had excess reserves on the order of 30 percent for the past several years. IMF Annual Report on Haiti, 1981.

Compared to 1981 gross private sector investment of $103.1 million (1982 dollars), the DFC induced investment program is small but significant. If allowances were made for probable indirect impacts the DFC financing and investments might reasonably be expected to have on the investment and financial climate, the impact would be considerably larger.

b. Impact on Employment and Earnings

Employment and earnings opportunities provided by the project are especially important to the poor. With eroding hillside farmlands and rural underemployment estimated to be 58 percent, increased employment opportunities are essential. The high rates of urban underemployment and unemployment, estimated to be around 50 percent by various sources,1/ suggest that the need for employment is also critical in urban areas.

The industrial projects financed by the DFC will generally be labor intensive, with a high proportion of the jobs going to the unskilled. Industrial investment by 66 newly approved enterprises in 1981 has been estimated to be $14.4 million. Each of the 10,160 proposed jobs was to cost on average $1,420 to create.2/ Most of the new projects were assembly operations. Investment per job in small and medium-sized import substitution enterprises, and in export-oriented ventures using domestic inputs, ranged between $3,100 in food processing to $12,880 in metal products in 1980.3/

Based on data generated from the project's loan demand analysis, it is conservatively estimated that each permament full-time job will require $6,800 investment. The capital stock generated by the DFC investment program dividend by $6,800 yields the number of full-time jobs. Employment is also created by industrial plant construction. It is estimated that construction will constitute 50 percent of investment and that $2,500 of construction will generate one man-year of construction employment. 4/

Annual earning per unskilled employee (95 percent of all employees) in the manufacturing sector is estimated to be $750, assuming compensation at the minimum wage rate of $2.64 per day. Earnings of skilled

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1/ C. Zuvekas, Jr., Agricultural Development in Haiti Agency for International Development, Washingtn, D.C., May 1978, pp. 136-146.

2/ World Bank, Economic Memorandum on Haiti, Report No. 3931-HA, May 1982, p. 39.

3/ PNU/BIT HAI/74-014, Résultats de l'Enquête sur l'Emploi Industriel à Port-au-Prince, Jan/Feb 1981

4/ See World Bank, Haiti Urban Sector Survey. Report No. 2152 - HA, April 1979, p. 175.

workers and managers are estimated to raise average earnings per employee to $1400 per year. Annual earnings per construction worker is estimated to be $500.

Total employment and earnings directly attributable to DFC investments is shown below. Total employment rises from approximately 230 in 1983 to 7800 in 1992, while total wage and salary earnings corresponding rise from $115,000 in 1983 to $8.6 million in 1992. Indirect employment and earnings effects could be expected to significantly add to these estimates.1/

DFC Induced Employment Earnings

	Employment			Earnings, 1982 ($000's)		
	Industrial	Construction	Total	Industrial	Construction	Total
1983	0	229	229	$ 0	$115	$115
1984	169	680	849	237	340	577
1985	661	1,066	1,727	925	533	1,458
1986	1,411	1,182	2,593	1,975	591	2,566
1987	2,210	1,249	3,459	3,094	625	3,719
1988	3,018	1,317	4,335	4,225	659	4,884
1989	3,836	1,392	5,228	5,370	696	6,066
1990	4,667	1,472	6,139	6,534	736	7,270
1991	5,516	1,491	7,007	7,722	746	8,468
1992	6,337	1,494	7,831	8,872	747	8,619

1/ Employment and earnings generated by DFC operating and technical assistance budgets are also excluded. The domestic impact of this will likely be minimal.

c. Impact on GDP

Significant increases in gross domestic product are especially important in Haiti, with its low per capita income level, estimated to be $260 in 1979. With a population growth rate of 1.8 percent, the 1976-81 2.6 percent annual growth rate in real GDP translates into only a 0.8 percent annual increase in real GDP per capita. The DFC can be expected to play a small but important role in raising this critical growth rate.

Based on its expected composition of subprojects to be financed by the DFC, the overall capital to output ratio is expected to be low. It will probably be quite similar to that estimated by LAAD's experience in Central America during the first drawdown on the A.I.D. loan. Hence, the project's marginal capital/output ratio is assumed to be 1.5:1 or .67 1/. Assuming that investments take one year on the average to become income generating capital and that depreciation is 5 percent per year, the following additions to GDP over a 10 year life of the project are projected:

DFC Additions to GDP in 1982 $000's

1983	$ -0-
1984	768
1985	3,010
1986	6,431
1987	10,069
1988	13,750
1989	17,475
1990	21,264
1991	25,131
1992	28,872
TOTAL	$126,770

These figures only refer to value added directly atributable to the DFC sponsored industrial projects. Additional indirect impacts, particularily on agricultural production, should reasonably be anticipated. But the magnitude of these impacts on GDP cannot be quantitatively projected.

1/ LAAD, Regional Agribusiness Development, Project Paper, AID-DLC/P-2127, Nov. 1975, p. 35.

d. Impact on Balance of Payments

The basic nature of the foreign exchange crises that Haiti currently faces is documented in Section II.A.2.a. Given the anticipated pressures on increased GOH expenditures, limited export revenues from traditional exports (e.g. coffee and bauxite), and rising demands for imports, the need to generate net exports will remain critical for the foreseeable future.

DFC investments overall are expected to be net generators of foreign exchange as they increase exports and/or reduce imports. This especially will be the case in the assembly re-export sector, where net exports rose from $1.8 million in 1970 to $40.0 million in 1981, a considerable increase even after allowing for price increases.[1/] To a lesser degree, this should also be the case for light manufacturers which utilize domestic inputs. This sector has increased its exports from $12.7 million in 1976 to $25.8 million in 1981.

The ability of agro-industries and import substituting investments to be net savers of foreign exchange is less certain. Projects which are capital intensive and/or import a large proportion of their inputs may be in fact net users of foreign exchange. However, DFC import-substituting subprojects are expected to be mainly labor-intensive and users of domestic inputs, especially agricultural.

On average, DFC subprojects are expected to be net exporters. However, neither their effect on exports nor import substitution can be accurately quantified at this time.

2. Cost-Benefit Analysis

Assessing the economic soundness of the DFC requires a comparison of project costs with expected benefits. This is complicated because the proposed project is a financial institution which is designed to be a catalyst to an industrial investment program. Hence, the analysis must incorporate DFC costs with the costs and benefits associated with induced industrial investments in Haiti. This is made difficult because the outputs and inputs of subprojects cannot be identified in advance. However, it is insightful to carry cost-benefit analysis as far as it will go.

1/ World Bank, Economic Memorandum on Haiti, Report No. 3931 - HA, May 1982.

The primary costs of the project are easy to identify. The DFC will make investment in office equipment, technical assistance and training will be provided to the DFC through an A.I.D. Grant, and DFC operating expenses will be incurred. In addition to these costs, loan dispersements of the DFC will facilitate real investments in industrial plant and equipment. These investments are assumed to be equal to twice the volume of DFC loan dispersements, with matching funds coming in the form of equity or other sources of credit.

The greatest costs to this project are borne by the new or expanding industrial firms. The managers must devote more hours to their businesses, hire new workers, and increase purchases of raw materials and intermediate goods. Since the exact costs are not known, it is assumed that most operating costs and the associated benefits are approximately equal. Hence, the returns to capital listed in the cost-benefit table are net of these costs. However, where there are known differences between economic costs and financial costs, adjustments have been made.

In the absence of distortions between economic and financial costs, the market set return on capital would constitute the primary benefit to society of DFC induced investment. The market rate of return on investments is variously estimated to range between 30 and 50, 35 and 50, and 40 and 50 percent by the Inter-American Development Bank 1/ and the World Bank.2/

Capital Consultants, S.A., a Haitian firm with extensive financial feasibility study experience for local industry, estimates an average return of 35 percent for industrial investments. To be conservative a 30 percent average financial return on equity in assumed for DFC investment projects. Thirty percent on equity translate into a 15.5 percent real rate of return to capital after allowing for inflation and Haitian debt/equity ratios.3/ A 15.5 percent real return would appear to be very conservative given the growth potential of the industrial sector. And this rate of return is quite similar to the return to industrial capital estimated for India on the basis of detailed financial information on over 1000 industrial firms.4/ Hence, we will accept this 15.5 percent return as the expected market return on DFC induced industrial capital.

1/ IDB, "Opportunities for Industrial Investment in Haiti", Washington, D.C. May 1979.

2/ World Bank, Economic Memorandum on Haiti, Report No. 3931-HA, May 1982.

3/ Discounting for 30 percent debt financing (at 15 percent) and 10 percent expected inflation.

4/ A. Harberger, Project Evaluation, Markham, Chicago 1972, p. 189.

Deviations of the economic rate of return on capital from the market rate may result from foreign exchange shortages, labor market imperfections and indirect taxes. These will be discussed in turn.

While the gourde to dollar official exchange rate is 5 to 1, the estimated shadow exchange rate is 5.5 to 1. 1/ Given the long-term nature of the foreign exchange shortage, a similar rate is likely to prevail over much of the life of the DFC. Hence, industrial projects which are net exchange earners will have lower real costs and higher economic profits. Since DFC financed projects are expected on average to be net foreign exchange earners, the economic rate of return on capital investments should accordingly be adjusted upwards. However, since the actual composition of DFC subprojects is not known, it is not possible at this time to assess the effect quantitatively. It will simply be assumed that the effect would be positive. Hence, 15.5 may conservatively be assumed to be a lower bound on the real economic return to capital after accounting for shadow price of foreign exchange.

The shadow wage for unskilled industrial workers in Port-au-Prince is currently estimated to range between $1.72 and $2.15 per day. A 1981 report by Capital Consult, S.A.2/ concludes that the average wage for agricultural work is $1.40 per 8 hour day. After adjusting for inflation and the higher cost of living in Port-au-Prince, 3/ this translates into $1.86 per day currently. The I.D.B. estimated the shadow wage rate in Port-au-Prince for unskilled factory labor to be in the $1.00 to $1.25 range in 1978.. Allowing for inflation, this implies that the shadow wage today would range from $1.72 to $2.15 per day.

Based on this information and informed judgements of current wage patterns in Port-au-Prince, it is estimated that the shadow wage is approximately $2.00 per day. This contrasts with the current industrial minimum wage payment for actual working days of $3.26.4/ Hence, approximately $1.25 a day per unskilled worker should be counted as an economic benefit in excess of economic costs. Assuming 95 percent of industrial workers will be unskilled, this implies the following benefit stream over the ten year life of the project.

1/ The parallel "free-market" exchange rate is used as the shadow exchange rate.

2/ Capital Consult, S.A., "Notes sur la Main-d'oeuvre Agricole en Haiti", Port-au-Prince, 1981.

3/ World Bank, Haiti Urban Sector Survey, Report No. 2152-HA, April 1979, p. 163.

4/ The $2.64 wage requires compensaion for an estimated 284 days per year, while it is estimated that there are only 230 actual work days on average.

DFC Wage Benefits in Excess of Costs (1982 $000's)

1983	$ -0-
1984	46
1985	180
1986	385
1987	603
1988	824
1989	1,047
1990	1,274
1991	1,506
1992	$ 1,730
TOTAL	$ 7,595.

These wage benefits may be expressed as a return to capital. So doing would add 4.0 percentage points to the estimated real rate of return to capital.1/

Finally, indirect taxes, because they are simply transfer payments, and as such do not represent economic costs, need to be added to financial profits to obtain economic profits. The World Bank has estimated indirect taxes to be 19.7 percent of gross capital income (excluding depreciation) for Haiti's modern industrial sector.2/ Applying this rate to Haiti's estimated 15.5 financial profit rate yields an adjustment of 3.1 percentage points to be added to the financial rate to obtain the economic rate of return on capital.

Accounting for the combined effects which can be quantified yields an estimated economic rate of return on capital of 22.6 percent. The impact of the foreign exchange disequilibrium would tend to make this a conservatively low estimate. Adjusting for an assumed rate of depreciation of 5 percent yields a gross return to capital of 27.6 percent. This return is net of all other firm operating costs.

Applying this rate to the capital stock generated by DFC investments yields the gross benefit stream. This is compared to costs over a ten year life of DFC operations in the following table. Since the DFC would induce major capital investment up through the last year, the return to the depreciating capital stock is allowed to continue for an additional ten years.

1/ Harberger made a similar adjustment to estimate the social return to capital in India. His adjustment yielded an increase of nearly 6 percentage points. A. Harberger, Project Evaluation, Markham , Chicago, 1972 pp. 184-232.

2/ World Bank, Current Economic Position and Prospects of Haiti, Vol II: Statistical Appendix, December 1978, p. 179. It is assumed that the tax rate increases brought about by recent tax reforms were offset by the inflationary impact on non ad valorem taxes.

DFC COST-BENEFIT ANALYSES (1982 $000's)

	Costs				Benefits				
Year	Technical Assistance to DFC	DFC Operating and Capital	Gross Industrial Investment	Total Costs	Industrial Capital	Gross Return on Capital (27.6%)	Net Benefit (Col.7-Col.4)	Net Present Value at 10 percent	Net Present Value at 19 Percent
1983	345	236	1146	1727	0	0	(1727)	(1569)	(1451)
1984	352	244	3404	4000	1146	316	(3684)	(3043)	(2601)
1985	146	327	5330	5803	4493	1240	(4563)	(3427)	(2706)
1986		285	5910	6195	9558	2649	(3546)	(2422)	(1769)
1987		291	6244	6535	15029	4148	(2387)	(1482)	(1000)
1988		291	6586	6877	20522	5664	(1213)	(684)	(427)
1989		326	6960	7286	26082	7199	(87)	(45)	(26)
1990		291	7358	7649	31738	8760	1111	519	277
1991		291	7458	7741	37509	10352	2603	1104	544
1992		291	7470	7761	43092	11893	4132	1595	727
1993					48407	13360	13360	4676	1977
1994					45987	12692	12692	4049	1574
1995					43687	12057	12057	3497	1254
1996					41503	11454	11454	3012	1008
1997					39428	10882	10882	2601	805
1998					37456	10337	10337	2253	641
1999					35584	9821	9821	1945	511
2000					33804	9330	9330	1679	411
2001					32114	8863	8863	1454	328
2002					30508	8420	8420	1255	261
								16967	338

The net present value of the project is nearly $17 million dollars when discounted with an opportunity cost of capital of 10 percent.[1] In order words, $17 million in benefits will be generated over the life of the project after all economic costs are covered, including the opportunity cost of capital. The internal rate of return is estimated to be 19.4 percent.

The precision of these estimates is of course limited by the difficulty of projecting a rate of return to a collection of industrial projects. However, the project would be economically viable as long as the economic return on industrial investments were greater than 13.5 percent. Given the estimated return of 22.6 percent, there appears to be considerable leeway before the project would become unsound. In other words, the economic justification for the project would not be reversed if reasonable alternative values were used for the financial rate of return to capital, the opportunity cost of labor, the effects of indirect taxes, or the shadow price of foreign exchange.

In addition to the favorable economic returns on investment described above, the analyses previously discussed demonstrate the favorable impact which the DFC will have on industrial investments, employment and earnings, GDP, and Haiti's balance of payments. Therefore, it is reasonable to assume that the DFC will be a very sound economic investment.

1/ World Bank, Haiti: Economic Memorandum, Report No. 3079-HA, Feb. 1981.

C. Social Soundness Analysis

Social Soundness factors have been examined for the proposed (DFC) project and the Mission believes that the project design is viable in terms of positive social impact. Several major factors which were considered in the design of the project are discussed below.

The DFC represents a project concept which AID has promoted in Haiti over the past three years with the assistance of ADELATEC, the Arthur D. Little Corporation, and the World Bank[1]. The lack of medium and long-term credit and the need for a responsive financial institution to supply it have repeatedly been identified as among the major obstacles to greater industrial growth[2]. During the past year the concept of the DFC was revived through a unique promotional campaign directed by local business leaders. A fundamental force behind this campaign was the active involvement of the five principal business associations in Haiti and the leadership that key members of those associations provided. Their creation of a Private Sector Committee for Development and the subsequent drive to raise equity capital for the DFC received broad support among the private sector, confirming the credibility of this committee as well as the perceived need for such a financial institution. Substantial employment generation and widespread entrepreneurial growth due to the financing of new expanded industrial projects are the most significant out-comes anticipated under the project. The target population which will be reached by the DFC's operations can be divided into three categories of direct beneficiaries: (1) entrepreneurs/investors; (2) unemployed or underemployed laborers (both urban and rural); and (3) small farmers.

1. Entrepreneurs/Investors

a. Domestic

(1) New Industrialists/Merchants: There appears to be a growing number of well-educated Haitians who are entering business in their

1. A.D. Little and ADELATEC feasibility studies were completed in 1980
2. Annex II, USAID/Haiti Country Development Strategy Statement, by 1984.

country for the first time. They may be either "permanent" Haitians or those who have gone abroad and have now returned. Collectively, they might be described as a middle class with entrepreneurial tendencies (versus those who simply remain professionals, or bureaucrats). Their investments may range from less than $50,000 (as an individual) to over $1 million (if part of a larger group). They often cannot rely on family or close friends for large investment assistance. Except for the Haitian community in the U.S. where there are few people with much knowledge of investment opportunities in Haiti, these new entrepreneurs do not have ready access to knowledgeable sources or appropriate marketing channels overseas. As a group, however they appear exceptionally responsive to new investment ideas.

(2) Established Families: Haiti's organized industrial and commercial economy has long been dominated by a relatively few number of families. Most are concentrated in Port-au-Prince, although their roots may be in one of the regional towns such as Jacmel or Cap-Haitien. Although they may seek outside financing from banks and government bodies, this group is generally able to tap internal resources among family and friends to undertake all but the largest projects. The most powerful or influential of these families can sometimes obtain concessionary terms or legal or regulatory interpretations not available to other businessmen. They can be quite responsive to new investment ideas, however, given their range of interest, influence and options, they often pursue only the most assured of investments.

b. Foreign

Existing or potential foreign investors in Haiti typically fall into three broad categories:

(1) Small-medium Companies: This is a group that is largely comprised of assembly industries. They are generally companies with individual sales ranging from $10-200 million that may have had only limited prior business experience abroad. An investor from this group will usually have the technical skills and marketing channels needed by a Haitian project if it is oriented to export production. Although these investors often have

access to the necessary capital they may want a significant capital commitment by a Haitian partner as a show of good faith.

The assembly industries in Haiti have been the fastest growing component of the economy in the last decade. The subsector is comprised of approximately 200 factories which employ 40,000 to 60,000 workers. Studies estimate that 3 to 4 people indirectly benefit from the employment obtained by one assembly worker. Using the higher figures, the assembly industries help to support from 16 to 24 percent of the population of Port-au-Prince metropolitan area (currently estimated at 1 million) where all the assembly operations are located[1].

(2) Multi-national Companies: This group includes multinationals of varying sizes including large organizations that possess all the experience, skills, and capital resources necessary to evaluate a Haitian opportunity and undertake it, no matter what the size. These companies may not be interested in Haitian participation if it can be avoided. They are very risk-conscious and look at Haiti in relation to other countries where they might go to obtain similar benefits with less risk. These companies are usually not interested in smaller investment opportunities (as are likely to be most common in Haiti), or in dealing with numerous small suppliers (e.g., peasant farmers). However, these companies will frequently seek out local investors/managers for joint venture projects which take advantage of Haiti's large labor force, low wage rates and proximity to the U.S.. In such cases the Haitian investors will usually be required to finance the local costs of the investment in order to gain a substantial role in the new enterprise.

c. Constraints

Haiti does not lack for entrepreneurs at any level. Should a promising investment idea emerge or a foreign investor seek such a local partner or agent, the necessary entrepreneurs will be forthcoming. The problem is not in the absence of entrepreneurs but in constraints which prevent this entrepreneurial energy from being realized.

1. Annex II, USAID/H Country Development Strategy Statement, FY 1984.

In interviews with Haitian businessmen and women, the lack of credit at reasonable interest rates has been cited as one of the major obstacles to more rapid investment by the private sector. Operating capital is also a problem. Most medium-to-small investors have typically used their short-term credit line to the maximum to expand rapidly from a limited personal capital/equity base. Thus, when sudden opportunities or problems arise which require short-term capital, they are unable to adequately respond.

2. Unemployed or Underemployed Laborers (Urban & Rural)

Haiti is in a gradual transition from an overwhelmingly agrarian to a dual economy with a dynamic new industrial sector. Currently, more than 70 percent of the population lives in the rural areas, but produces less than 40 percent of the national income. Unemployment in Haiti is estimated at 50% of the job-seeking population and underemployment is estimated much higher. Roughly 54% of Haitian women are in the labor force.

Rural to urban migration is high and growing and both sectors suffer from widespread poverty. Rural poverty reflects an antiquated economic/social structure, low-level technologies, and a lack of incentives for the predominantly small farmer population. Urban poverty reflects widespread unemployment. Urban wage rates, while low by international standards, are currently two or three times higher than rural wages and the disparity is increasing. The possibility of higher wages, the total absence of unutilized arable land, the lack of off-farm employment opportunities, and the far greater availability of social services in provincial capitals and Port-au-Prince are accelarating the inflow of rural poor to urban areas. The rural population growth is about 1% per year while urban areas grow at over 4% per year. Port-au-Prince is growing at 7% or more per year.

Despite "overcrowding" and poverty in Port-au-Prince, the city offers the best overall conditions for industrial investments. The vast majority of Haiti's banks and financial institutions are located in the city. National and international communications, the country's principal port and airport, and the key government offices with which every business will have to deal are in Port-au-Prince. From the standpoint of expatriate management

personnel, the living conditions and amenties of Port-au-Prince are far superior to those anywhere else in the country. Port-au-Prince has skilled manpower, business services, and above all, the city is the hub of the national market. Soon, Port-au-Prince will hold nearly one-third of the country's population. Few national businesses are able to survive in the rural periphery and the secondary cities of the country. Some agro-industries, because of their close ties to agriculture, may be able to move into the regions outside of Port-au-Prince.

3. Small Farmers

Inspite of current demographic trends, Haiti is today, and will remain for some time to come, a predominantly rural and agricultural country. According to the 1971 census, there were 620,000 farm units in Haiti on about 365,000 hectares of land. Each unit, however, consisted of more than one plot. The average plot size was 0.77 hectares and the average number of plots held by each farmer was 1.8. While few of the rural poor are totally landless, farm units are so small and agricultural work so seasonal that most rural inhabitants seek supplementary work during much of the year. The lack of government and private sector investment in agriculture coupled, with a primitive agricultural technology that has remained essentially static since independence, are two of the major factors in the declining productivity of Haiti's agricultural base.

It is a commonly held idea that in a peasant-based farming system such as Haiti's farmers cannot be induced to convert rapidly to a new crop. Thus, agro-industries without dedicated land (i.e. owned or long-term leased) could not risk large fixed investments if peasants were their major source of raw materials. This has not been the recent experience in Haiti with tomatoes and tobacco. In both instances, farmers expanded from zero to roughly one thousand acres in each crop over a three to four year period. What was needed was a solid market (i.e. contract production), a price which increased income above competing crops, extention assistance,, credit, and the availability of inputs, all of which were provided by the respective agro-industry.

The employment and earnings opportunities provided by the DFC will be especially important to Haiti's poor. Many of the industrial projects financed by the DFC will be labor-intensive and will often draw on raw materials produced by Haiti's peasant farmers. Criteria for project financing will reflect the above concerns.

Direct employment as a result of the DFC is projected to rise from approximately 230 jobs in 1983 to 7800 in 1992. A coresponding rise is projected for wage and salary earnings from $139.000 in 1983 to $13.1 million in 1992. Indirect employment and earnings effects can be expected to add significantly to these estimates.

D. Institutional Analysis

1. DFC Ownership and Equity Structure

Annex I contains the DFC's articles of incorporation, which legally define its ownership and organizational structure. These articles or statutes establish the institutional framework, and operational characteristics of the DFC. The statutes are based upon recommendations originally made by ADELATEC, later revised by A.D. Little and ultimately decided upon by the core group with the assistance of the leading attorneys in Haiti.

The DFC will be a development banking institution which will provide project analysis and financial services to clients involved in new or expanded industrial projects. As stated in previous sections of this paper the DFC will be characterized by its broadly based equity structure whereby no individual shareholder may possess, according to the enabling legislation, more than 10% of the common stock. It will be a majority Haitian owned company, and private Haitian citizens or foreign nationals residing in Haiti will own 100% of the DFC's stock.

The enabling legislation requires that the DFC have a minimum equity base (authorized share capital) of $1 million within 2 years from the date of incorporation. To date the $1 million has been pledged and $650,000

has been paid into an escrow account. Upon incorporation it is expected that shares of common stock, each having one vote will be issued. Investors will purchase sufficient shares to capitalize the DFC at about $700,000 initially. The remaining $300,000 will be raised at a later date (but before drawing down more than $2 million of the AID funds), by selling shares to either the initial stockholders or other investors. Based upon the contributions to the escrow account, it is expected that the average individual investment will be between $1,000 and $10,000; the maximum investment would likely total $30,000; and the mean investment will about $5,700. There will likely be about 140 initial shareholders.

Obviously the market for shares is very limited and not many Haitians are able and willing to invest $5,000 to $10,000 in a venture that may not yield high returns. An even better balance among shareholders will be achieved by inviting the general public to participate in the initial stock offering (perhaps in lower amounts) and by limiting the amount of voting shares to not more than 10% for any one shareholder. By limiting the maximum individual ownership of shares, by imposing adequate election procedures for Board membership, and by permitting purchases of a minimal number of shares, broad ownership is assured.

As to raising equity in the future, provision has been made, through the enabling legislation, for issuing stock at any time. The board and management will review the need for additional paid-in equity in light of the DFC's growth in assets and profits, its access to outside borrowings and the increased risk as a result of leveraging excessive debt, and of course the debt/equity limits established by loan agreements. At this time the base case financial analysis projects the need for additional equity in year three. The Board and management will give consideration to the issuance of other forms of stock, e.g., non-voting preferred, in the future. As broad ownership will be realized at the outset, the precedent has been established to continue broad participation in the future, not withstanding the need to protect the initial common stockholders from dilution of ownership.

As to other sources of capital (e.g. borrowed money, purchased funds, etc.), this $4 million AID project will provide the seed funding needed

to operate during the first few years. As projected in the financial analysis, and as justified by the market demand, the DFC requires additional capital 2.1/2 years after starting operations. This additional capital should come through borrowings, as the DFC is more likely to be able to borrow than to raise equity (note the debt/equity ratio is still relatively low). Whether the borrowings are commercial or concessional remains to be seen, but on the basis of experiences in other developing countries a follow-on soft loan is likely to be needed and can be justified. Without it the DFC's ability to maintain a reasonable level of savings is greatly reduced. As shown in the financial analysis a second concessional loan is assumed in year three. Beyond this second loan the analysis assumes that commercial borrowings are obtained. It should also be pointed out that with only about $1 million in equity and assets totaling slightly over $5 million, coupled with the fact that the DFC will still be new and operating in a high risk environment, access to commercial debt could be limited.

With regard to purchased funds, the legislation permits the DFC to issue bonds and debentures but it cannot hold demand or short-term deposits. The DFC can also obtain loans and credits from national and foreign bank and maintain its deposits in national or foreign banks. As the corporation becomes operational and is able to demonstrate profitable performance, it is expected that the general public, including individual savers or perhaps insurance companies could be a source of medium-term certificates of deposits.

2. Organization and Management

The organization chart shown below is a suggestion of how the DFC could be initially structured. However, as this decision belongs rightfully to the Board of Directors, it should not be taken as a required, nor inflexible format. It is modified somewhat from the structure proposed in the ADELATEC study as a result of discussions with the Core Group, the Financiera Dominicana and assessments by Arthur D. Little team. It reflects the importance the evaluation, legal, and administrative functions will have on the development and continued health of the DFC loan portfolio.

ORGANIZATION CHART

Board of Directors

Legal Advisor

External Auditors

General Manager

Loan Evaluation
- Technical
- Financial

Legal Department
- contracting
- Registrations
- Judicial Action

Loan Administration

Supervision
- Contract compliance
- Collections

Treasury
- Custody
- Cash management

Accounting/Controller
- Information & Records
- Management Info. System

a. Board of Directors and Officers: The DFC will have a Board of at least 5 and up to 12 members appointed at the annual membership meeting. The board will appoint a chairman, a vice chairman, a secretary and a treasurer. It is responsible for setting policy, delegation of its authority to appropriate management personnel, and general overall supervision of the activities of the DFC.

The Articles of Incorporation of the DFC focus primarily on the general functions of the Board of Directors whose members are elected by the shareholders, and of the Chairman of the Board who is elected from among Board members by their votes. The Articles do not specify how the DFC is to be organized, nor does it specify many details on how the Board and the DFC are to operate. The first Board of Directors will, therefore, have the responsibility of determining the rules and procedures under which future Boards and the Corporation will conduct business. This is a proper role for a new Board, but it will require a careful exercise of that responsibility so as to keep the organization as flexible as possible in order to be able to successfully operate in an uncertain and changing environment. The results will be only as good as the care and effort which the initial Board puts into its task.

The Chairman of the Board will have the power to manage the company within the limits of the power of the Board which will presumably be delegated to him/her. This person will in turn delegate certain authority to the General Manager, who will be responsible for the day to day operations of the company as well as being an important factor in helping to determine company policy. In order to ensure this role for the General Manager, the Board should allow for easy access to them by the General Manager, perhaps including him/her as a non-voting member of the Board.

The Legal Counsel will report directly to the Board or its Chairman, and will be responsible for negotiations of borrowings by the DFC, necessary legal contact with organizations not relating to subloan activities, and for any exceptional legal requirements. Outside counsel will also be responsible for assisting the internal legal department in setting up the internal legal requirements relating to the lending and guarantee functions,

but will not actively take part in this on a daily basis, unless necessitated by unusual circumstances

The external auditor, which should be an internationally recognized company, will be responsible for the preparation of annual reports and for assisting the Controller or Acccounting Group with the design of appropriate accounting, control and management information systems. This firm will be responsible to the Board of Director

b. Management and Staff*

The Loan Evaluation Department of the DFC will be responsible for the full credit analysis and presentation of all potential projects: including the initial development of the prospect or screening of the request, in depth analytical work; loan committee presentation; negotiation of required covenants, collateral and guarantees; and other requirements necessary to actually lend money. The Chief of this department, who should be a good analyst of long-term credit requests, will operate for one year as the only analyst other than the General Manager. In addition to regular analysis activities, he/she will also have to initially draw up operating policies for the department, and the general requirements and minimum standards which the DFC will use for pre-screening prospective customers and projects. These latter requirements should be well publicized within the business community in order to encourage potential clients to carefully consider important aspects of a project before coming to the DFC. Some of this work may be done with the help of outside technical assistance. Assistant loan officers will be added as demand requires. They should be chosen not only on their ability to do long-term credit analysis, but also for their specific expertise (if possible) in industrial engineering and/or agronomy. It will be necessary to have both of these disciplines and corresponding skills either in-house, or through contracted expertise.

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*See Annex M for job descriptions of principal officers.

The Legal Department will perform internal legal functions, specifically relating to the lending/guarante activities of the DFC. The department chief should be someone with legal training, but does not have to be a trained lawyer. In fact, in the early years, this probably would be an unwarranted expense. Functions will include: the preparation of basic loan contracts; amendment of these contracts to fit the individual subloans; the review of guarantees provided to the DFC from sub-borrowers; registration of collateral; the legal implications of loan evaluation recommendations; and the initiation/implementation of any legal actions required to obtain repayment of subloans or recovery under guarantees, either directly or through contracts with outside collection agencies or legal counsel.

The Loan Administration Department will have as its primary responsibility the mechanical details of actually making advances once a loan has been approved by the Loan Committee except for those activities handled by the Legal Department. Although Loan Evaluation should never relinquish its overall responsibility for the lending relationship and the health of the company, Loan Administration can, in effect, help the analysts leverage their time. Loan Administration will obtain reports for advances against completion, determine that machinery being financed or used as collateral is in place and of the type agreed to, do inventory checks, disburse against preconditions set by Loan Evaluation, and follow customer compliance with the covenants of loan agreements. Together with the Loan Evaluation Department, Loan Administration personnel will work out a plan of action should a ccustomer be found to be having difficulty. The chief of this department will, in addition to setting up and overseeing the above enumerated procedures, also develop and oversee the treasury and cash management functions of the DFC, accounting/controller functions, personnel and payroll functions, a record-keeping and management information system. Some of this development work may be done with the assistance of outside consultants. However, the chief will initially have to have a familiarity with all these operations. As the company grows, some of these responsibilities may be transferred into newly created departments, if their size warrants it.

The General Manager of the DFC will be the chief executive officer and will have the responsibility of supervising all three of the above

mentioned departments. To acccomplish this he/she will have to have a working knowledge of them all, in order to foresee or deal with any difficulties which may arise. However, in the early years of the DFC operation, continuing into the later years under a low growth scenario, the General Manager will also spend a significant amount of time performing credit analysis, acting to a certain extent as Chief Loan Officer. The ability to perform this function must be a particular force of the General Manager, in addition to being skilled in management. If the organization grows rapidly, there will be less and less time for the General Manager to act as an analyst, and this day to day responsibility will have to be taken up by the Loan Evaluation Group.

Loan approval decisions will probably be the responsibility of a Loan Committee, particularly in the early years when there are few people on the staff with credit experience. The Board will have to decide who sits on the Committee, but is should probably include the head of Loan Evaluation, the General Manager, Chief of Loan Administration, and one or more members of the Board of Directors, the latter perhaps on a rotating basis. The Board may also wish to grant the Chairman or General Manager loan approval authority within certain limits, on their own.

It should again be emphasized that this organization plan and the specific assignments of responsibilities are a proposed mode of operation. It is extremely important that flexibility be built into whatever system is developed, and it should be expected that it will evolve over time in response to changing needs.

3. DFC Operating Costs - ($000)

Years	1	2	3	4	5
a. Staff -					
General Manager	70	77	85	92	100
Exec. Secretary (bilingual)	12	13	15	16	18
Administrative Assistant	-	-	15	16	18
Legal Advisor	6	7	8	9	10
External Auditor	6	7	8	9	10

Loan Evaluation					
1 office chief	35	40	45	69	55
1 assistant loan officer	-	21	23	25	28
1 assistant loan officer	-	-	21	23	25
1 secretary/typist	7	8	9	10	11
Legal Department					
1 office chief	14	16	18	20	22
1 assistant	-	-	9	10	11
1 secretary/typist	7	8	9	10	11
Loan Administration					
1 office chief	-	35	40	45	50
1 treasurer/accountant (controller)	14	16	18	20	22
1 secretary/typist	-	8	9	10	11
Clerical/Logistical					
chauffer/messenger	2	2	3	3	4
cleaning/security	2	2	3	3	4
Total Personnel	175	260	338	371	410

b. General and Administrative Expenses -

Rent	12	12	15	15	18
Utilities	2	2	3	3	4
Telephone	4	4	5	5	6
Telex	1	1	2	2	2
Office Supplies	1	1	2	2	3

Local transportation	2	2	3	3	4
Travel	6	6	7	7	8
Equipment rental (computers, etc.)	3	3	4	4	5
Professional fees (accounting)	2	2	3	3	4
Public relations	2	2	3	3	4
Sub-Total	35	35	47	47	58
Total	210	295	385	418	468

Fringe Benefits and Payroll Charges - Haiti (used in computing above figures)

Bonus - 1 extra month salary (December)
Vacation - 1/2 month salary
Social Security - 4%
Workmen's compensation - 2%
Labor training tax - 1%
Paid holidays - 11 days/yr.
Sick leave - 15 days/yr.
Health card - $5/card
Severance pay - 2 weeks to 3 months based on years of employment at the rate of approximately one month/5 years.
For women, maternity leave of 6 weeks of paid salary.

Total Fringe Benefits and Payroll Charges average 38.4%.

Other Costs

Office Rent - $10/sq. ft./yr.
Utilities: Phone Rental $25/mo. plus $3/extension
Power 3" cents/Kilowatt hour
Telex Rental-minimum of $100/month
Water - $5/month
Auditors - $40/hour

VI. PROJECT IMPLEMENTATION

A. Project Management

1. Role of AID

The Mission's Office of Private Enterprise Development (OPED) will be responsible for monitoring the project. With the assistance of the Mission Controller and, when required, Mission management, the OPED will:

- review and forward for processing DFC requests for disbursements;
- review proposed sub-loans which require AID approval;
- review DFC reports and other related correspondence, taking action as needed;
- supervise project evaluation activities;
- monitor project activity, ensuring compliance with conditions and covenants of Project Agreement, taking management action as necessary; and
- make periodic visits to sub-project sites;
- report on the project to Mission management and AID/W as appropriate.

The review/approval process will consist of two steps. The DFC will submit to USAID a sub-loan proposal that will include a detailed analysis of the proposed project in terms of its technical, financial, marketing and managerial aspects. This proposal will be accompanied by a DFC letter certifying that the proposed investment has been authorized by the Board of Directors and a copy of the proposed loan agreement with the perspective client. Upon receipt of the sub-loan proposal, USAID's OPED office will initiate USAID's review of these documents. This review will not examine the credit worthiness of the project per se, which is properly the role of the DFC's officers, but will focus on: compliance with agreed upon lending criteria; the anticipated economic impact of the project; and compliance with

the terms and conditions of the AID Project Agreement and overall objectives of the Project.

Fifteen (15) days after receipt of the sub-loan proposal USAID/Haiti will advise the DFC, in writing, of its decision which will result in one of three outcomes: (a) USAID's concurrence with the DFC request; or (b) a request for additional information required for a decision; or (c) the rejection of the proposed sub-loan.

2. Role of DFC

The DFC will be responsible for developing and installing all sublending management systems and procedures (after obtaining AID's approval). The DFC will also develop and formalize all sublending policies, in accordance with the conditions of the AID grant*.

The DFC will systematically supervise its loans and investments in order to monitor their performance, and to provide any necessary back-up support. The DFC will compile a set of key indices for each such project and require the respective companies to supply that information periodically, preferably on a quarterly basis. The collected data will comprise not only financial indices but also information on fulfillment of other project evaluation criteria as appropriate in each case.

B. Implementation Schedule Event

		Date (week of)
1.	Project Paper submitted to AID/W	Sept. 13, 1982
2.	DFC legislation approved by GOH (Presidential signature)	Sept. 13, 1982

* Annex J describes the DFC's proposed policy and operations guidelines. They will be formally submitted and approved as a contition precedent to disbursement.

3.	AID/W review/approval	Sept. 27, 1982
4.	Preliminary organization of DFC: Selection of provisional Board of Director	Sept. 27, 1982
5.	DFC General Assembly: approval of by-laws and election of Board of Directors	Oct. 11, 1982
6.	Selection of General Manager	Oct. 18, 1982
7.	Incorporation of DFC and opening of temporary offices	Nov. 8, 1982
8.	Negotiate/Sign Project Agreement	Nov. 15, 1982
9.	Conditions Precedent to first disbursement met	Nov. 29, 1982
10.	Issue Request for Proposals (RFP) for Technical assistance team	Nov. 29, 1982
11.	Public Opening of DFC's permament Office	Dec. 15, 1982
12.	Closing date for RFP Receipt of proposals	Jan 10, 1983
13.	Select/Contract Technical Assistance Contractor	Feb. 7, 1983
14.	Arrival of Senior Advisor and Project Analysis/Credit Specialist	March 7, 1983
15.	Condition precedent to disbursement for sub-project lending satisfied	April 4, 1983

16.	Arrival of Loan Administration Specialist	Jan. 1984
17.	Conditions precedent to disbursement of in excess of $2,0 million in lending capital satisfied	Jan. 1984
18.	Mid-course evaluation	Oct. 1984
19.	End of Project Evaluation	Oct. 1985
20.	PACD	Dec. 1985

C. Evaluation Plan

Two in-dept project evaluations will be conducted by independent contractors during the life of the Project*. The first one is scheduled after two years of project implementation (October 1984), at which time the DFC's progress towards implementation targets will be scrutinized. The second evaluation will be scheduled for October 1985, thus serving as an end of project evaluation.

These comprehensive evaluations will assess the following aspects of the Project:

(1) The impact of sub-loans on the borrowers' businesses in terms of increased income and entry into new markets.

(2) The macro-economic effect of the DFC's operations on foreign exchange earnings, numbers of small farmers participating in cropping programs with DFC sub-borrowers, and employment generation.

* Three (3) PM of consulting services will be budgeted for the two evaluations; the first will be funded by the DFC and the final one with AID funds.

(3) The effectiveness of the DFC's financial operations in relation to its client requirements.

The targets and indicators presented in the logical framework will be the principal basis for measuring progress towards achieving the Project's goal and purpose.

Information for carrying out the evaluations will be obtained from: project records, independent audit reports and interviews with DFC personnel, clients, technical advisors, and USAID officials.

D. Disbursement Procedures

USAID will utilize the following for the disbursement of project funds:

1. Direct Reimbursement - For Sub-Project Lending: The DFC will be required to submit annual sub-project lending estimates based on projected loan demand. Based upon these requirements, USAID/Haiti will establish a revolving fund which will be replenished as required. Detailed procedures governing the revolving fund will be spelled out in Project Implementation letters (PILs).

2. Direct Payments - For Goods and Services to be Procured by USAID/Haiti: For these items, USAID will issue PIOs, Purchase Orders, etc.

E. Procurement Procedures

The DFC is an intermediate credit institution and its procurement policies will be in accordance with Handbook 1, Supplement B, Chapter 19. The source and origin of U.S. dollar procurement will be in those countries included in Code 941 of the AID Geographic Code Book and Haiti.

The DFC's management will have responsibility for monitoring procurement, and regular reports will be submitted to USAID/Haiti.

VII. CONDITIONS AND NEGOTIATING STATUS

A. Negotiating Status

This project has been developed on a collaborative basis with the DFC core group which represents the investors. These individuals have reviewed the project paper and proposed conditions and covenants and find them acceptable. It is expected that negotiations will be accomplished rapidly, and that a grant agreement will be finalized within two weeks after the incorporation of the DFC.

B. Conditions and Covenants

The following conditions and covenants will be included in the grant agreement. These conditions and covenants are similar to those utilized with other intermediate credit institution projects in the LAC Bureau.

Conditions Precedent to First Disbursement

Prior to the first disbursement under the Grant, or to the issuance by AID of documentation pursuant to which disbursement will be made, the Grantee will, except as the parties may otherwise agree in writing, furnish to AID in form and substance satisfactory to AID:

1. An opinion of Grantee's counsel satisfactory to AID, that the Grantee has been duly organized and incorporated under the laws of Haiti, that Grantee has taken all corporate and legal action required under the laws of Haiti and has full powers essential to the effective implementation by Grantee of the Project;

2. An opinion of counsel acceptable to AID stating that this Agreement has been duly authorized and/or ratified by, and is a legally executed binding obligation of the Grantee in accordance with all of its terms.

3. A statement of the name of the principal officers of the Grantee and of any additional representatives, together with a specimen signature of each person specified in such statement.

4. Evidence of paid-in capital of not less than the gourde equivalent of seven hundred thousand United States Dollars ($700,000).

5. Evidence of the selection of a general manager or interim project manager satisfactory to AID and the establishment of an office for the DFC.

6. Except for the consulting services required to recruit a general manager, evidence that the Grantee has identified sources of technical assistance, satisfactory to AID, to assist the Grantee in the organization and operation of the DFC.

Conditions Precedent to disbursement for Sub-Project Lending

Except as AID may otherwise agree in writing, prior to disbursement under the Grant or to issuance by AID of documentation pursuant to which disbursement will be made to finance Sub-Project Lending, the Grantee will furnish to AID in form and substance satisfactory to AID:

1. A statement setting forth the basic organizational policies and operational guidelines of the DFC.

2. A statement setting forth the lending criteria and procedures the Grantee will follow in reviewing, analyzing and administering sub-loans, investments and guarantees.

3. Evidence satisfactory to AID that the Grantee has employed the staff required to carry out the DFC's operations.

4. A plan for the periodic audit of sub-loans.

5. A description of the DFC's trust fund mechanism for loan repayment, including an agreement with a participating bank, which describes its operation, projected cash flow, and schedule for its establishment.

6. A detailed two year operating budget.

Conditions precedent to Disbursement of in Excess of $2,000,000 Lending Capital

Prior to disbursement under the Grant or to issuance by AID of documentation pursuant to which disbursement will be made for in Excess of $2,000,000 of Grant funds, the Grantee will, except as AID may otherwise agree in writing, furnish AID in form and substance satisfactory to AID evidence that the Grantee has obtained additional total paid-in capital of the gourde equivalent of $300,000 raising total paid-in capital in gourde equivalent of $1,000,000.

Special Covenants

1. Project Evaluation - The Parties agree to establish an evaluation program as part of the Project. Except as the Parties otherwise agree in writing, the program will include:

(a) evaluation of progress toward attainment of the objectives of the project;

(b) identification and evaluation of problem areas of contraints which may inhibit such atainment;

(c) assessment of how such information may be used to help overcome such problems; and

(d) evaluation, to the degree feasible, of the overall development impact of the Project.

2. Other Special Covenants - Grantee agrees that, unless AID otherwise agrees in writing, it will:

(a) Not declare or pay any cash dividend during the grace period until such time as the DFC has realized two consecutive years of profit. Furthermore, the amount declared and paid should not exceed 10% of that year's profits.

(b) Not use AID funds to pay administrative or operating expenses of the Grantee.

(c) Not without prior AID approval make sub-loans or guarantees to, or equity investment in, business or other activities in which any member of the Board of Directors, officer or employee of the Grantee or their immediate family has a financial interest.

(d) Maintain a reserve for bad debts of at least two percent (2%) of all outstanding loans.

(e) Not incur any indebtedness which would enjoy a position superior to the obligation incurred under the AID loans.

(f) Use reflows of sub-loan principal and interest in conformity with the purpose of the Project.

(g) Submit a report to AID each quarter during the life of this Agreement. Each report will contain a breakdown of sub-projects, showing types of industry, commitments and disbursements, terms and conditions of financing and uses of AID funds, an aging of account, and other comments as appropriate.

(h) Amend or modify its corporate charter and by-laws without prior approval of AID.

(i) Not undertake equity financing of sub-projects during the first three years of operations.

(j) Limit the maximum total amount of outstanding loans and or guarantees to any sub-borrower, or groups of borrowers with similar ownership, to no more than 15% of the Grantee's equity base at the time sub-loans or guarantees are made.

(k) Repay the AID grant funds provided for sub-lending in Gourdes (both principal and interest) to an independent trust fund.

(l) Will submit for AID approval a policy regarding the use of guarantees prior to the issuance of any guarantee.

(m) Engage the services of an internationally receognized accounting firm to carry out an annual audit of the Grantee's operations.

(n) Not incur short or long-term liabilities which cause the debt/equity ratio of the DFC to exceed five to one (5/1).

(o) Not make equity investment which exceed 5% of the DFC's total assets or 20% of the DFC's equity which ever is lower.

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APPROVED BY AID/AA/LAC:OJREICH
AID/LAC/DR:LTARMSTRONG (DRAFT)
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AID/LAC/DR:DBJOHNSON
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TAGS:
SUBJECT: DEVELOPMENT FINANCE CORPORATION PID (521-0154)
DAEC REVIEW

1. SUMMARY. THE DAEC REVIEWED THESUBJECT PID ON 2 AND 5 JULY, 1982. THE PID IS HEREBY APPROVED AND THE MISSION IS COMMENDED FOR THE QUALITY OF THE PID, WHICH REFLECTED SERIOUS STUDY AND PREPARATION. TWO ELEMENTS OF PROPOSED PROJECT, NAMELY SMALL FUND FACILITY AND ADMINISTRATIVE START-UP COST SUPPORT, WERE DISAPPROVED. HOWEVER, FUNDING PROPOSED FOR THESE ELEMENTS MAY BE REALLOCATED TO INVESTMENT CAPITAL ELEMENT OF PROJECT, PROVIDED THAT EFFECTIVE DEMAND CAN BE DEMONSTRATED AND THAT AN APPROPRIATE DEBT/EQUITY RELATIONSHIP CAN BE MAINTAINED. END SUMMARY.

2. FINANCIAL PLAN:

--A. EQUITY STRUCTURE. DAEC UNDERLINED IMPORTANCE OF ATTRACTING SHAREHOLDERS (E.G., BANKS AND INSURANCE

CORPORATIONS) WHICH ARE AS CONCERNED WITH THE FINANCIAL SOUNDNESS AND OPERATIONAL REQUIREMENTS AS WITH THE DEVELOPMENTAL OBJECTIVES OF THE DFC. IDEALLY, PROPOSED DFC SHAREHOLDER STRUCTURE SHOULD PERMIT THE ATTRACTION OF LARGEST POSSIBLE AMOUNTS OF EQUITY CAPITAL FUNDS, WHILE SIMULTANEOUSLY ASSURING BROADEST POSSIBLE DISTRIBUTION OF SHARES TO INCLUDE SMALL INVESTORS. THIS MAY BE ACHIEVED THROUGH ESTABLISHING SPECIAL CATEGORIES OF SHARES, E.G., PREFERRED, NON-VOTING, COMMON, ETC. IN ADDITION, STRUCTURE SHOULD BE ESTABLISHED TO PERMIT AND FACILITATE RAISING EQUITY CAPITAL IN FUTURE AS DFC MATURES AND CAPITAL REQUIREMENTS INCREASE.

--B. SUB-LOAN INTEREST RATES: INTEREST RATES PROPOSED FOR SUBLOANS SHOULD SATISFY THE REQUIREMENTS THAT (1) THE DFC LEND AT RATES COMPARABLE TO THOSE OFFERED BY OTHER

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FINANCIAL INSTITUTIONS AND (2) THE DFC CAN BECOME A FINANCIALLY VIABLE LENDING INSTITUTION. MISSION SHOULD EXAMINE MARKET INTEREST RATES FOR DFC SUB-LOANS. IT SEEMS UNLIKELY THAT BUSINESSMEN WOULD BE WILLING TO LOCK THEMSELVES INTO A DOLLAR LOAN ON A TERM BASIS AT 18 PERCENT AS ILLUSTRATED IN PID. MISSION SHOULD ADDRESS QUESTION OF APPROPRIATE LENDING RATES, PERHAPS A FLOATING RATE, TIED TO INTERNATIONAL OR DOLLAR INSTRUMENTS. RECOMMEND DFC POLICIES WITH REGARD TO BOTH FIXED RATE AND FLOATING RATE LOANS SHOULD BE DESCRIBED IN PP. FINANCIAL MODELS SHOULD BE PREPARED ON THE BASIS OF DIFFERENT INTEREST SPREADS AND MATURITY SCHEDULES AND SENSITIVITY ANALYSIS EMPLOYED TO EXAMINE IMPACT ON PROFITS OF VARIOUS RATES. LOCAL CURRENCY LOANS SHOULD PROBABLY BE INDEXED TO INFLATION LEVEL OR PERHAPS DENOMINATED IN DOLLAR EQUIVALENTS TO PROVIDE AN ADEQUATE RETURN IN REAL TERMS.

--C. FINANCIAL VIABILITY: CASH FLOW AND FINANCIAL STATEMENT PROJECTIONS SHOULD BE PRESENTED IN PP DEMONSTRATING DFC VIABILITY. ASSUMPTIONS SHOULD BE EXPLICITLY STATED.

3. DEMAND FOR DFC CAPITAL. DURING INTENSIVE REVIEW, MISSION SHOULD DEFINE THE MARKET WHICH THE DFC WILL ATTEMPT TO SERVE. THIS WOULD INCLUDE AN EXAMINATION OF THE DEMAND FOR DFC CAPITAL, DEVELOPMENT OF A PROFILE OF LIKELY SUB-LOANS (INCLUDING, INTER ALIA, SIZE AND TYPES OF SUB-LOANS DEMANDED), AND A RECOMMENDATION ON THE APPROPRIATE SIZE OF SUB-LOANS. INITIAL BUREAU REACTION WAS THAT UPPER LOAN LIMIT MAY BE TOO LOW, RESULTING IN

PROLIFERATION OF SMALL LOANS AND CONSIDERABLE BURDEN UPON SMALL DFC STAFF. HOWEVER, SUGGEST THAT THERE BE NO LOWER LIMIT ON LOAN SIZE BEYOND GOOD USE OF DFC LOAN OFFICERS. THIS SHOULD BE HANDLED THROUGH ANNEX I OF THE PROJECT AGREEMENT, WHICH SHOULD ESTABLISH AN ABSOLUTE MAXIMUM DFC LOAN AMOUNT. DFC CAN SEEK CO-FINANCING WHERE IT DESIRES TO PARTICIPATE IN FINANCING A LARGER PROJECT.

4. PROJECT ELEMENTS.

--A. SPECIAL FUND: IT WAS DECIDED THAT SPECIAL FUND FOR SMALL SUB-LOANS IS NOT AN APPROPRIATE ACTIVITY FOR THE DFC TO UNDERTAKE. THIS HIGH-RISK, NONTRADITIONAL LENDING WOULD BE BETTER HANDLED THROUGH ORGANIZATIONS SUCH AS THE HDF, WHICH HAVE THE LARGE STAFF REQUIRED TO ADMINISTER SUCH LABOR-INTENSIVE LOANS.

--B. ADMINISTRATIVE SUPPORT: AID GRANT FUNDING OF INITIAL START-UP COSTS OF DFC SHOULD NOT BE INCLUDED AS PART OF PROJECT. DFC SHOULD FINANCE SUCH COST FROM ITS EQUITY CAPITAL, AND CAPITALIZE AS PART OF ITS ASSET STRUCTURE THOSE WHICH ARE LEGITIMATE "START-UP" BUSINESS EXPENSES.

--C. TRAINING: BUREAU RECOGNIZES IMPORTANCE OF TRAINING IN THE HAITIAN CONTEXT. HOWEVER, TRAINING IN THIS PROJECT SHOULD (1) BE RESTRICTED TO DFC PERSONNEL, (2) BE TAILORED TO THE SPECIFIC AND MORE IMMEDIATE NEEDS OF THE DFC, AND (3) IDEALLY BE SHORT-TERM IN NATURE. IF MISSION DETERMINES THAT SOME LONG-TERM TRAINING IS CRITICAL, FUNDS MAY BE AVAILABLE UNDER THE LAC REGIONAL TRAINING PROGRAM FOR THIS PURPOSE.

--D. TECHNICAL ASSISTANCE: THE NATURE OF THE FEASIBILITY STUDIES EXPECTED TO BE FINANCED UNDER THE PROJECT WAS DISCUSSED. CONCERN EXPRESSED THAT STUDIES ENVISIONED WOULD BE HIGH COST AND OVERLY SOPHISTICATED, THUS GOING UNUSED. MISSION SHOULD REEXAMINE TYPE OF

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STUDIES NEEDED AND TA REQUIREMENTS FOR CARRYING THESE OUT. DISPOSITION HERE IS THAT EMPHASIS SHOULD BE ON TA FOR STUDIES FROM OTHER BUSINESSMEN OR MANUFACTURERS WHO ARE MORE LIKELY TO PROVIDE PRACTICAL AND USEABLE STUDIES. DFC SHOULD NOT BE IN THE BUSINESS OF FINANCING FEASIBILITY STUDIES FOR ITS OWN ACCOUNT. RATHER, COSTS OF FEASIBILITY STUDIES SHOULD BE ELIGIBLE FOR FINANCING AS PART OF SUB-LOAN PACKAGE.

5. DFC OPERATIONS : MISSION SHOULD NOT BE INVOLVED IN

LOAN APPROVALS OR OTHER DAY-TO-DAY DFC ACTIVITIES. RATHER, DFC ACTIVITIES SHOULD BE GUIDED AND CIRCUMSCRIBED BY CRITERIA AND POLICIES AGREED TO PRIOR TO PROJECT APPROVAL, THE ABOVE NOTWITHSTANDING, MISSION MAY WISH TO RECEIVE COPIES OF SUB-LOAN DOCUMENTS AND MINUTES OF DFC MEETINGS, AND SHOULD PROVIDE FOR JOINT ANNUAL EVALUATIONS OF DFC OPERATIONS. DURING INTENSIVE REVIEW APPROPRIATE LENDING CRITERIA AND BASIC OPERATING POLICIES SHOULD BE DEVELOPED WHICH SHOULD BE OUTLINED IN THE PROJECT PAPER. IN DEVELOPING THESE CRITERIA AND POLICIES, MISSION SHOULD INVESTIGATE FOLLOWING AREAS:

--A. A LIMIT ON THE DEBT/EQUITY RATIO THE DFC MAY EMPLOY. INTENSIVE REVIEW SHOULD CAREFULLY EXAMINE EXPERIENCES OF OTHER DFCS IN OTHER COUNTRIES TO DETERMINE THE APPROPRIATE DEBT/EQUITY RATIO. DFC D/E RATIO SHOULD BE BASED ON CONSIDERATIONS SUCH AS FINANCIAL SOUNDNESS, CURRENT SUB-LOAN REQUIREMENTS, RISK, AND FUTURE LEVERAGING OF CAPITAL TO OBTAIN COMMERCIAL LOANS FOR INCREASING THE RESOURCES AVAILABLE FROM NON-CONCESSIONAL SOURCES. SUGGEST RATIO BE ON THE ORDER OF 5/1.

--B. A LIMIT ON DIVIDENDS PAID TO SHAREHOLDERS. WHILE IT MAY NOT BE ADVISABLE TO RESTRICT THESE PAYMENTS ENTIRELY, DAEC RECOMMENDED THAT DIVIDENDS SHOULD NOT BE PAID DURING THE INITIAL YEARS OF DFC OPERATIONS. DFC SHOULD BE WELL-CAPITALIZED AND OPERATING PROFITABLY PRIOR TO CONSIDERING SUBSTANTIAL DIVIDEND PAYMENT AS RETAINED EARNINGS ARE BEST USED TO FURTHER CAPITALIZE THE DFC, AND LEVER ADDITIONAL DEBT.

--C. CRITERIA ESTABLISHING THE CONDITIONS UNDER WHICH MEMBERS OF THE BOARD OF DIRECTORS MAY BORROW DFC FUNDS. RECOGNIZE THAT EXCLUSION OF SUCH LENDING IN CONTEXT OF HAITI MAY NOT BE ADVISABLE; HOWEVER, AT A MINIMUM, FULL DISCLOSURE PRIOR TO APPROVAL OF SUCH SUB-LOANS IS ADVISED. PP SHOULD DESCRIBE RECOMMENDED DFC POLICIES GOVERNING SUCH MATTERS.

--D. GUIDELINES COVERING THE EXTENT TO WHICH THE DFC CAN PROVIDE EQUITY FINANCING. BUREAU BELIEVES THAT VERY LIMITED IF ANY EQUITY FINANCING SHOULD BE PROVIDED BY DFC DURING INITIAL THREE TO FIVE YEARS. PP SHOULD FULLY JUSTIFY ANY RECOMMENDATION THAT DFC TAKE EQUITY POSITIONS. EXPERIENCE AND RECORD OF OTHER DFCS IN THIS AREA SHOULD BE EXAMINED.

--E. THE CREATION OF AN APPROPRIATE RESERVE FOR BAD DEBTS.

6. CONDITIONS: DURING INTENSIVE REVIEW, MISSION SHOULD EXAMINE ADVISABILITY OF INCLUDING THE FOLLOWING CONDITIONS PRIOR TO AUTHORIZATION OR DISBURSEMENT OF A.I.D. FUNDS:

--A. THAT THE DRAFT DFC LAW BE ENACTED BY THE GOH PRIOR TO AUTHORIZATION;

--B. THAT THE CHOICE OF GENERAL MANAGER OF THE

CORPORATION BE APPROVED BY THE MISSION PRIOR TO DISBURSEMENT;

--C. THAT THE DEPOSIT OF THE ENTIRE DOLS 1 MILLION IN HAITIAN PRIVATE SECTOR EQUITY BE COMPLETED PRIOR TO DISBURSEMENT; AND

--D. THAT PROFITS RESULTING FROM CONCESSIONARY AID INTEREST RATES BE UTILIZED TO ENLARGE PERMANENT EQUITY BASE OF THE DFC.

7. FUNDING:

--A. SOURCE. PREFERRED FUNDING SOURCE IS ESF SUPPLEMENTAL APPROPRIATION (CBI). IF ESF IS NOT AVAILABLE THIS YEAR, BUREAU WILL MAKE EVERY EFFORT TO OBTAIN DA FUNDS.

--B. GRANT VS. LOAN: BECAUSE HAITI IS AN RLDC, GRANT FUNDING IS PREFERRED TO LOAN FUNDING. IN EVENT LOAN FUNDS ARE THE ONLY AVAILABLE SOURCE, SEPTEL GUIDANCE WILL BE TRANSMITTED REGARDING LOAN FUNDING MECHANISM AND GUARANTY ARRANGEMENTS. GUIDANCE PROVIDED IN C BELOW, THEREFORE, REFERS ONLY TO GRANT FUNDING OPTION.

--C. MECHANISM: SUGGESTED MECHANISM IS A DIRECT GRANT TO DFC WITH THE PROVISION THAT DFC REPAY TO A TRUST FUND THE LOCAL CURRENCY EQUIVALENT OF THE AMOUNT OF THE A.I.D. GRANT DISBURSED TO THE DFC PLUS AN ANNUAL INCREMENTAL INTEREST CHARGE ON THESE FUNDS OF 5 OR 6 PERCENT. THE INCREMENTAL PAYMENTS COULD BE USED TO FINANCE MISSION-INCURRED LOCAL CURRENCY COSTS [illegible] THE PAYMENTS ON PRINCIPAL COULD BE USED TO FINANCE DEVELOPMENT PROGRAMS MUTUALLY AGREED UPON BY USAID AND THE GOH.

8. ENVIRONMENTAL CONSIDERATIONS. PP SHOULD INCLUDE A LIST OF THOSE TYPES OF PROJECTS THAT WILL BE EXCLUDED FROM CONSIDERATION UNDER THE PROJECT DUE TO THEIR DETRIMENTAL ENVIRONMENTAL EFFECTS OR INELIGIBILITY UNDER A.I.D. REGULATIONS (E.G., GAMBLING EQUIPMENT). IEE WILL BE AMENDED BY BUREAU'S ENVIRONMENTAL OFFICER AND TRANSMITTED SOONEST TO MISSION FOR INCLUSION IN PP.

9. TDY ASSISTANCE: MISSION HAS REQUESTED AND DAEC APPROVED LAC/DR TDY ASSISTANCE PROPOSAL THAT P. BITTNER OR C. LEONARD ASSIST MISSION WITH PP PREPARATION. PLEASE ADVISE DESIRED ETA FOR THIS ASSISTANCE. SUGGEST MID-AUGUST.

10. PROJECT AUTHORIZATION: GIVEN SPECIAL NATURE OF THIS PROJECT, MISSION SHOULD SUBMIT FINAL PP TO BUREAU FOR AUTHORIZATION.

11. FYI, ALL LAC MISSION AND PID APPROVALS ARE SUBJECT TO REVALIDATION IF POST-PID PROJECT DEVELOPMENT EXTENDS BEYOND ONE YEAR. END FYI. SHULTZ

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5C(2) PROJECT CHECKLIST

Listed below are statutory criteria applicable generally to projects with FAA funds and project criteria applicable to individual funding sources: Development Assistance (with a subcategory for criteria applicable only to loans); and Economic Support Fund.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE?
HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT?

A. GENERAL CRITERIA FOR PROJECT

1. Continuing Resolution 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 amount)?

   Notification Expired on:

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

   The law has been enacted (8-30-82) by the National Legislative which enables the establishment of a Development Finance Corporation.

A.	4.	FAA Sec. 611(b); Continuing Resolution Sec. 501. If for water or water-related land resource construction, has project met the standards and criteria as set forth in the Principles and Standards for Planning Water and Related Land Resources, dated October 25, 1973?	N.A.
	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?	Yes.
	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.	No. However, other donor support to the DFC is a strong possibility.
	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; and (c) encourage development and use of cooperatives, and 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.	Yes, project will provide financing for private sector activities in Haiti.
	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.	Funding is provided to allow private business in Haiti to procure goods and services from United States sources.

A.8. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

9. FAA Sec. 612(b), 636(h); Continuing Resolution Sec. 508. 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 in lieu of dollars.

N.A. However, a substantial equity contribution will be made by the private sector in Haiti.

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?

No.

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. Continuing Resolution Sec. 522. 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, 281(a). Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level, increasing labor-

N.A.

B.1.a. 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?

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

B.1.b.(1) 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 or demonstration of 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 and 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.

(2) [104] for population planning under sec. 104(b) or health under sec. 104(c); if so, (i) extent to which activity emphasizes 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.

(4) [105] for education, public administration, or human resources development; if so, extent to which activity strengthens nonformal 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;

B.1.b.(4) and (ii) 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.

(5) [106; ISDCA of 1980, Sec. 304] for energy, private voluntary organizations, and selected development activities; if so, extent to which 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; (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; and (c) a cooperative program in energy production and conservation through research and development and use of small scale, decentralized, renewable energy sources for rural areas;

(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 process 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 laborintensive enterprises, marketing systems, and financial or other institutions to help urban poor participate in economic and social development.

B.1. 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)?

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"?

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 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.

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?

2. Development Assistance Project Criteria (Loans Only)

a. FAA Sec. 122(b). Information and conclusion on capacity of the country to

B.2.a. repay the loan, at a reasonable rate of interest.

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?

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 FAA Section 102?

Yes.

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

No.

PROJECT AUTHORIZATION AND REQUEST FOR ALLOTMENT OF FUNDS

Part II

Name of Country	Haiti
Name of Project	Development Finance Corporation
Project Number	521-0154

Pursuant to Part II, Chapter 4, Section 531 of the Foreign Assistance Act of 1961, as amended, I hereby authorize a grant to the Development Finance Corporation ("Grantee") of not to exceed Five Million United States Dollars ($5,000,000) (the "Grant") to help in financing certain foreign exchange and local currency costs of goods and certain services required for a project which consists of the establishment of a Development Finance Corporation in Haiti. The entire amount of the A.I.D. financing herein authorized ($5,000,000) for the project will be obligated when the Project Agreement is executed.

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

1. Source and Origin of Goods and Services

Goods and Services financed by A.I.D. under the Grant shall have their source and origin in countries included in A.I.D. Geographic Code 941 or in Haiti except as A.I.D. may otherwise agree in writing.

2. Conditions Precedent to Initial Disbursement

Except as A.I.D. may otherwise agree in writing, prior to the first disbursement under the Grant or to the issuance by A.I.D. of documentation pursuant to which the first disbursement will be made, the Grantee will furnish to A.I.D. in form and substance satisfactory to A.I.D.:

(a) Evidence of paid-in capital of not less than the gourde equivalent of seven hundred thousand United States Dollars ($700,000).

(b) Evidence of the selection of a general manager or interim project manager satisfactory to AID and the establishment of an office for the DFC.

(c) Except for the consulting services required to recruit a general manager, evidence that Grantee has identified sources of technical assistance, satisfactory to A.I.D., to assist Grantee in the organization and operation of the DFC.

3. Conditions Precedent to Disbursement for Sub-Project Lending

Except as A.I.D. may otherwise agree in writing, prior to disbursement under the Grant or to issuance by A.I.D. of documentation pursuant to which disbursement will be made to finance Sub-Project Lending, the Grantee will furnish to A.I.D. in form and substance satisfactory to A.I.D.:

(a) A statement setting forth the basic organizational policies, and operational guidelines of the DFC.

(b) A statement setting forth the lending criteria and procedures the Grantee will follow in reviewing, analyzing and administering subloans, investment and guarantees.

(c) Evidence satisfactory to A.I.D. that the Grantee has employed staff as required to carry out the DFC's operations.

(d) A plan for the periodic audit of subloans.

4. Conditions Precedent to Disbursement of in Excess of $2,000,000 Lending Capital

Notwithstanding compliance with other conditions precedent in this authorization, prior to disbursement under the Grant or to issuance by A.I.D.: of documentation pursuant to which disbursement will be made for in Excess of $2,000,000 of Grant funds, the Grantee will except as A.I.D. may otherwise agree in writing, furnish A.I.D. in form and substance satisfactory to A.I.D.:

(a) Evidence that Grantee has obtained additional total paid in capital of the gourde equivalent of $300,000 raising total paid in capital in the gourde equivalent of $1,000,000.

5. Convenants

The Grantee shall convenant that unless A.I.D. otherwise agrees in writing, it will:

(a) Establish an evaluation program as part of the project. Except as the Parties otherwise agree in writing, the program will include, during the implementation of the project and at one or more points thereafter:

- evaluation of progress toward attainment of the objectives of the project;

- identification and evaluation of problem areas of constraints which may inhibit such attainment;

- assessment of how such information may be used to help overcome such problems; and

- evaluation, to the degree feasible, of the overall development impact of the project.

(b) Not declare or pay any cash dividends, during the grace period, until such time as the DFC has realized two consecutive years of profit, furthermore, the amount declared and paid should not exceed 10% of that year's profits.

(c) Not use A.I.D. funds to pay administrative or operating expenses of the Grantee.

(d) Not without prior A.I.D. approval make a subloan or guarantees to, or equity investments in, business or other activities in which any member of the Board of Directors, officer or employee of the Grantee or their immediate family has a financial interest;

(e) Not incur any indebtedness which would enjoy a position superior to the obligation incurred under the A.I.D. loan;

(f) Use reflows of subloan principal and interest in conformity with the purpose of the project;

(g) Not undertake equity financing of sub-project during the first three years of operations.

(h) Repay the A.I.D. grant funds, provided for sublending, in Gourdes (both principal and interest) to an independent trust fund.

(i) Engage the services of an internationally recognized accounting firm to carry out an annual audit of the Grantee's operations.

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

I, Harlan H. Hobgood, the principal officer of the Agency for International Development in Haiti, having taken into account, among other factors, the maintenance and utilization of projects in Haiti previously financed or assisted by the United States, do hereby certify that, in my judgement, the Development Finance Corporation in Haiti has both the human resources and financial capability to effectively maintain and utilize the grant capital assistance project: Development Finance Corporation, project number 521-0154.

This judgement is based, inter alia, upon the commitment of the private sector in Haiti to the project as evidenced by its substantial equity contribution, the continuing voluntary support of the Haitian core group and the leadership of the Haitian Association of Industries; and the substantial technical assistance to be made available within the project to assure sound institutional management.

Harlan H. Hobgood
Director USAID/Haiti

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

LAC/DR-IEE-82-34

ENVIRONMENTAL THRESHOLD DECISION

Project Location	:	Haiti
Project Title and Number	:	Development Finance Corporation 521-0154
Funding	:	LOP: $5,000,000
Life of Project	:	Five years, FY 1982 - FY 1987
IEE Prepared by	:	Aaron S. Williams USAID/Haiti
Recommended Threshold Decision	:	Negative Determination
Bureau Threshold Decision	:	Concurrence with recommendation
Action	:	Copy to Phyllis L. Dichter Acting Mission Director USAID/Haiti
	:	Copy to Aaron S. Williams
	:	Copy to Richard Byess, LAC/DR/CAR

James S. Hester Date 24 Aug 1982

James S. Hester
Environmental Officer
Bureau for Latin America
and the Caribbean

INITIAL ENVIRONMENTAL EXAMINATION

PROJECT LOCATION	:	Haiti
PROJECT TITLE	:	Development Finance Corporation
FUNDING	:	LOP: $5,000,000
LIFE OF PROJECT	:	Five years [illegible]
IEE PREPARED BY	:	Aaron S. Williams USAID/Haiti
DATE	:	June 14, 1982

ENVIRONMENTAL ACTION

RECOMMENDED	:	That the project will not have a significant effect on the environment and therefore a negative determination is appropriate.
CONCURRENCE	:	Phyllis L. Dichter Acting Mission Director USAID/Haiti
DATE	:	June 18, 1982

II. PROJECT DESCRIPTION

The development Finance Corporation will be a broad-based, multipurpose investment finance institution that will provide promotional, technical, and financial services to carefully selected clients involved in new or expanded industrial projects. Special emphasis will be given to well-planned regional projects, profitable projects with small businessmen, and investments with significant employment generating potential.

The DFC will provide medium and long-term financing to medium as well as to large enterprises. Project selection criteria will include economic viability/impact, availability of skilled management, environmental acceptability, estimated return on investment, direct employment potential, and foreign exchange earnings. Credit will be extended to both industrial and agroindustrial projects which meet the DFC's requirements.

III. IDENTIFICATION AND EVALUATION OF ENVIRONMENTAL IMPACT

The major focus of this project is the creation of a credit institution that will provide direct stimulation to the Haitian economy. The project will provide employment opportunities in both Port-au-Prince and the regional areas to skilled and unskilled workers, primarily through the creation and expansion of labor-intensive industries. While the project will generate employment opportunities and benefit those individuals who are the direct recipients of loans, the DFC will not have a significant impact on the human environment. Those classes of loans to businesses that would have a significant adverse effect on the environment will be specifically excluded from funding under the terms of the loan and grant. These include loans for the manufacture, importation, distribution or application of pesticides, loans for mining coral reefs, and loans which would contribute to the exploitation of endangered species. As such, and in accordance with AID IEE Guidelines, Part V. B, the project will not warrant the preparation of an Environmental Assessment.

IV. RECOMMENDATION FOR ENVIRONMENTAL ACTION

Given that the DFC project will have no significant negative impact on the human environment, a recommendation for a Negative Determination is extended.

AID 1020-28 (11-78)
SUPP. CHAPTER 1

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

INSTRUCTION: THIS IS AN OPTIONAL FORM WHICH CAN BE USED AS AN AID TO ORGANIZING DATA FOR THE PAR REPORT. IT NEED NOT BE RETAINED OR SUBMITTED.)

Life of Project:
From FY _____ to FY _____
Total U.S. Funding _____
Date Prepared: _____

Project Title & Number: Development Finance Corporation/521-0

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Program or Sector Goal: The broader objective to which this project contributes: (A-1)	Measures of Goal Achievement: (A-2)	(A-3)	Assumptions for achieving goal targets: (A-4)
Goal To stimulate industrial growth in both the manufacturing and agricultural sectors in Haiti.	Increased private investment directly related to DFC activities.	Project evaluations, Project reports	1. GOH policy of encouraging industrial investment is continued. 2. Foreign markets can be successfully entered by Haitian based companies.
	Increased number of new enterprises and expansion of existing companies.	DFC reports, Project reports	3. Internal demand for manufactured products and agricultural produce continues to grow.
Purpose To establish a DFC to provide medium/long-term credit and support services to investors for industrial projects in Haiti.	EOPS 1. A viable financial institution which meets the credit needs for new or expanded industrial projects.	1. Project reports, annual independent audit, periodic project evaluations.	1(a) DFC credit terms and services are considered to be incentives for new investment by investors. (b) The DFC can successfully recruit and hire qualified experienced staff.
	2. $5.7 mm loan portfolio consisting of 50 medium and long-term industrial loans.	2. DFC loan portfolio records.	
	3. Creation of new employment opportunities, in both Port-au-Prince and the provincial areas, for skilled and unskilled workers.	3. DFC reports, Project reports, Periodic project evaluations	
	4. Increase in the number of small farmers selling produce to agribusiness.	4. DFC reports, Project evaluations	

AID 1020-28 (11-78)

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
From FY _____ to FY _____
Total U. S. Funding _____
Date Prepared: _____

Project Title & Number: _____

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Program or Sector Goal: The broader objective to which this project contributes: (A-1)	Measures of Goal Achievement: (A-2)	(A-3)	Assumptions for achieving goal targets: (A-4)
Project Purpose: (B-1)	Conditions that will indicate purpose has been achieved: End-of-Project status. (B-2)	(B-3)	Assumptions for achieving purpose: (B-4)
Project Outputs: (C-1)	Magnitude of Outputs: (C-2)	(C-3)	Assumptions for achieving outputs: (C-4)
Project Inputs: (D-1)	Implementation Target (Type and Quantity) (D-2)	(D-3)	Assumptions for providing inputs: (D-4)

BEST AVAILABLE DOCUMENT

AID 1020-20 (1-73)
SUPPLEMENT I

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
From FY _____ to FY _____
Total U.S. Funding _____
Date Prepared: _____

Project Title & Number: _____

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Project Outputs: (C-1)	Magnitude of Outputs: (C-2)	(C-3)	Assumptions for achieving outputs: (C-4)

AID 1020-28 (11-72)
SUPPLEMENT

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Project Title & Number: _____

Life of Project:
From FY ___ to FY ___
Total U.S. Funding _____
Date Prepared: _____

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Project Purpose: (B-1)	Conditions that will indicate purpose has been achieved: End-of-Project status. (B-2)	(B-3)	Assumptions for achieving purpose: (B-4)
	5. Increase in foreign exchange earnings due to the financing of new or expanded export businesses.	5. Central Bank reports, DFC reports.	
	6. Investment banking programs developed which secure additional lending capital.	6. DFC reports, Project reports, Project evaluations	6. Other donors and institutions willing to provide additional fu[illegible]s.
	7. Local savings mobilization programs established to provide supplementary funds to the DFC.	7. Refer to No. 6	
	8. A system of supporting services created to monitor the DFC's loan portfolio and to assist clients with management problems.	8. Refer to No. 6	
Outputs			
1. Outstanding loan portfolio at end of each year ($000).	1. Yr.1 630; Yr.2 2,600; Yr.3 5,700	1. DFC loan portfolio records and Project reports.	1. The basis for the proposed disbursement plan is realistic.
2. Sub-project identification, promotion, development (arrangements for or provision of technical assistance for sub-projects)	2. Number of new projects identified and financed; DFC staff or outside consultants provide assistance.	2. DFC department reports and Project records.	2. DFC project development programs will stimulate investor interest in new projects; and appropriate technical assistance will be available on a timely basis.
3. Credit and project monitoring systems functioning efficiently to assure client success and loan repayments	3. Interest/principal payments are received on time, low level of delinquent payments.	3. DFC loan portfolio records and Project reports.	

AID 1020-20 (5-78)
SUPPLEMENT 1

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
From FY _____ to FY _____
Total U.S. Funding ____ _____
Date Prepared: _____

Project Title & Number: _____

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Project Inputs: (D-1)	Implementation Target (Type and Quantity) (D-2)	(D-3)	Assumptions for providing inputs. D-4
Inputs	Life of Project ($000)		
1. AID		1. AID records	1. Funds available in FY 82 or 83
a. AID (lending capital)	$4,000		
B. AID grant (TA, Training)	1,000		
2. Grantee's equity	$1,000	2. DFC reports and annual independent audit.	2. Successful completion of subscription drive for DFC escrow account.

COMITE DU SECTEUR PRIVE POUR LE DEVELOPPEMENT
ADIH - HAMCHAM - AIHE - CCH - AHTH
TEL. 6-4509 / 6-4510 • P. O. BOX 2568 • PORT-AU-PRINCE, HAITI

September 14, 1982

Mr. Harlan Hobgood
Director,
USAID MISSION TO HAITI
P.O. Box 1634
Port-au-Prince, HAITI.

Dear Harlan:

This will refer to our proposed project concerning the creation in Haiti by the Private Sector of a private Development Finance Corporation (DFC) which goal is to stimulate substantial industrial growth in both the manufacturing and agricultural sectors of our country. This goal will be achieved by promoting and facilitating domestic and foreign investment in Haiti, especially in agriculture oriented processing industries and labor-intensive operations that maximize in-country value added to our products.

The purpose of this private Haitian Development Finance Corporation is to provide medium and long term capital and support services to investors for industrial projects in Haiti. In this manner, the DFC will enable us to address major constraints which inhibit industrial growth in Haiti.

The project has been designed in a collaborative manner to include a grouping of private sector associations known as "The Private Sector Committee for Development"(PSCD), a Core Group consisting of nine progressive Haitian businessmen and members of your staff. This effort is an indication of the private sector's aspirations

for growth in Haiti and the development of a modern society which provides employment for the majority of its citizens.

To that end the Haitian Private Sector intends to raise one million dollars ($1,000,000.00) in equity capital to initiate the DFC. We have already collected $700,000.00 which is currently deposited in escrow in various commercial banks here. Over 120 different subscribers have participated in this exercise, thus assuring a broad ownership base.

The purpose of this letter is to request from A.I.D. a grant of five million dollars ($5,000,000.00) to assist the private sector of Haiti in the establishment of this Development Finance Corporation.

We hope that this request will result in a positive response from A.I.D., and will provide us with the technical and financial support to engage in this very much needed endeavor.

With best personal regards,

Sincerely,

ANDRE S. APAID
Chairman

AA/mn

LAW GOVERNING THE OPERATION OF A DEVELOPMENT FINANCE CORPORATION (DFC)

Considering Article 88 and Article 93 of the Constitution;
Considering the Law of July 4, 1933 on Registration;
Considering the Decree of October 10, 1979 on the development finance corporations;
Considering Section III and Section IV of the Commercial Law;
Considering the Law of September 18, 1952 creating a general store for maintenance of goods likely to warrant imprests;
Considering the Law of September 19, 1952 enabling short and medium-term credit grants to farmers and manufacturers subject to pledging on site of machines, machine-tools and any mechanical equipment in good order;
Considering the Law of August 3, 1955 governing the constitution, establishment and operation of Haitian and foreign corporations;
Considering the Decree of August 23, 1960 on corporations;
Considering the Decree of November 11, 1968 on the settlement of the registered capital of joint-stock companies;
Considering the Law of June 1, 1973 governing the Institut de Développement Agricole et Industriel (Institute of Agricultural and Industrial Development) created by the Decree of June 29, 1961;
Considering the Law of August 17, 1979 creating the Banque de la République d'Haiti;
Considering the Law of August 17, 1979 creating the Banque Nationale de Crédit;
Considering the Decree of November 14, 1980 governing the operation of banks and bank activities on the territory of the Republic of Haiti;
Considering the Decree of March 20, 1981 creating the Industrial Development Fund within the Banque de la République d'Haiti;
Considering the Decree of September 28, 1981 amending the Law of August 7, 1980 and the Decree of October 28, 1980 on the income taxation;
Whereas the economic policy of the Government is to incite the private sector to

participate more actively in the development of the country;
Whereas it is necessary to facilitate credits to a larger scale of sectors of the national economy, and in particular the sector of the small and medium-size firms;
Whereas it is necessary to adopt a new law amending or rescinding the provisions of the Decree of October 10, 1979 governing the development finance corporations, in order to achieve aforesaid objective.

Considering the report of the Secretaries of State of Finance and Economic Affairs, of Commerce and Industry, and of Planning; and
After deliberation of the Cabinet

The following clauses have been proposed and
passed by the Parliament

Article 1 - The organization, constitution, and operation of a Development Finance Corporation (DFC), as defined hereinafter, shall be subject to the provisions of this Law.

Article 2 - DEFINITION

A Development Finance Corporation (DFC) is a partnership whose objective is to promote, finance, and organize the establishment and the operation of any business able to contribute to the national economic development.

Article 3 - Except otherwise stipulated by this Law, the DFCs shall be subject to the laws and regulations regarding the organization, constitution, and operation of the corporations in Haiti.

Article 4 - The minimum authorized capital of a DFC shall be Five Million Gourdes (G 5,000,000.00). Before a Development Finance Corporation may operate, the founders shall subscribe 100% of the registered capital and pay in 50% of the above mentionned minimum authorized capital. The paid in 50% shall be deposited on a special DFC account at the Banque Nationale de Crédit, who shall deliver a safe-custody receipt to this effect. The rest of the registered capital shall be paid in one or several payments within a period of two years following publication of the authorization to operate in The Moniteur (official gazette).

Article 5 - DFC shareholders may not own more than ten per cent (10%) of the assets of the Corporation

Article 6 - When filing for authorization to operate DFC founders shall attach the following to their application:

a) Authorization of the Minister of Finance and Economic Affairs;

b) Safe-custody receipt of the BNC certifying deposit of 50% of the capital.

Article 7 - A DFC is not a bank. DFCs are not authorized to receive personal deposits. They are not required to keep the legal reserves provided and required by the laws governing banks.

Article 8 - In any case, whatsoever, a DFC may not:

- Operate or administrate personal properties or real estate for third parties
- Participate in unincorporated companies
- Receive deposits as is the case for banks
- Apply for loans guaranteed by its own shares.

Article 9 - A Development Finance Corporation may:

- Obtain loans and credits from local or foreign banks
- Maintain deposits in Haitian or foreign banks
- Issue bonds and debentures
- Guarantee the placement of shares or other values issued by third parties, and receive commissions therefrom
- Accept grants, donations or loans from foreign, governmental or non-governmental parties, refundable or not.

Article 10 - The DFCs shall fix, within the limits prescribed by the Law, the maximum amount of debts and obligations allowed, including those authorized for subscription of endorsement and guarantees, and for issuance of bills of exchange.

Article 11 - DFCs may grant medium or long-term loans or participate in any company for:

a) Project studies and implementation

b) Purchase and installation of machinery and equipment

c) Purchase, construction, extension, and modernization of buildings for industrial, agricultural, or agro-industrial production

d) Purchase of patents or manufacturing licenses

e) Technical assistance contracts

f) Participation in the categories of businesses subject to this Law

g) Refinancing of debts

This list shall not be considered all-inclusive and restrictive.

Article 12 -

1) A Short-Term Credit is any amount of money granted to a company hereunder, in order to be able to pay its current expenses. Reimbursement of such loan shall take place within a period not exceeding twenty-four months.

2) A Medium-Term Credit is any loan, credit line or other form of financing for a valuable consideration and allowing company to buy raw materials, materials and equipment. Reimbursement of such loan shall take place within a period exceeding twenty-four months, but never sixty months.

3) A Long-Term Credit is any loan, credit line or other form of financing for a valuable consideration and allowing a company to operate fixed investments, the amortization of which cannot be realized but at long term, according to the fiscal laws and the generally agreed accounting principles, and the reimbursement of which must take place over a period of at least five years, independently of any grace period.

Article 13 - In addition to the guarantees authorized by the Law for the security of debts in general, the loans granted by a DFC can be secured by:

Pledging (on site) of machines, machine-tools, tools, electrical, electro-mechanical or electronical tools and equipment of the companies concerned: crops, livestock, produce, raw materials, manufactured or semi-manufactured,

agricultural and industrial product warrant.

Article 14 - Pledging on site shall consist of a statement made by the debtor at the record-office of the Civil Court of his residence, with the authorization of a DFC, consigned in a special register, classified and initialled by the Prosecutor appointed to the above mentionned court, or by notarial act. Said statement, copy of which shall be sent to the DFC at the debtor's expense, shall contain a list, the marks and serial numbers of the articles pledged, as well as the paid invoices, and any other document stating the applicant's ownership.

Article 15 - Registers containing the pledging statement shall be public, and the statement shall be registered free of charge.

Article 16 - The short and medium-term loans granted by a DFC by pledging (on site) or by warrant of crops or livestocks are considered as preferential debts on personal estates. Said debts shall have priority on any other preferential debts, except Treasury Bonds.

In any case, crops and livestocks pledged in favor of a DFC shall be free of any claim of attachment, by any legal means whatsoever, however, notwithstanding the acknowledged owners' rights concerning the estates cultivated, in case of crops. The creditors of a DFC debtor, or any other person having a right on the crops or livestock of said debtor, may file a claim in due time thru the DFC, in order to secure their debts and to protect their rights.

After payment of the debt by the debtor, the DFC shall retain any amount due for reimbursement, and for validation of the seizure.

Article 17 - The DFC's preferential right shall remain in force regarding the crops and their proceeds, until reimbursement. The livestock warranting a loan shall not be assigned or sold without the DFC's prior authorization.

Article 18 - DFCs may put at the disposal of any farmer, stock-breeder, and manufacturer, machine, machine-tools, farming instruments, and cattle, whatsoever, on a lease-purchase agreement.

The DFC's preferential rights shall remain in force concerning the properties thus leased to the farmers and manufacturers, until full payment of the debt; they shall have the right to seize them or lay a claim to them, in case any payment should remain due, after notice and without any other legal procedures, wherever they might be.

Article 19 - In case any payment should remain due concerning a loan against pledging (on site) affecting industrial equipment, the legal procedure shall be that provided for in Articles 93 and next, of the Commercial Law.

Article 20 - All registration fees concerning documents which are not expressely exempted shall be reduced by fifty per cent (50%), as to the transactions provided by this Law.

Article 21 - Any borrower who misappropriates or attempts to misappropriate the articles thus pledged or leased; harvests or attempts to harvest, without the knowledge of the DFC, the products guaranteeing the loan granted; refuses or fails to harvest; hinders or attempts to hinder transportation of the produces to the silos (store-pits), wharehouses or stores indicated to him, shall be subject to the penalties provided for in Articles 324 and 340 of the Penal Code, without prejudice to the legal action taken against him for the reimbursement of the loan before the competent court.

Article 22 - Any borrower who, voluntarily, alterates or attempts to alterate, or deteriorates produces, machines, instruments or goods pledged or hired, or misappropriates or kills the pledged cattle, except the provisions made in Article 119, 2nd paragraph of the Rural Code, shall be subject to the penalties provided for in Articles 356 and next of the Penal Code.

In the same manner, any purchaser of all or part of the crops pledged in favor of a DFC, shall be responsible for the reimbursement of the principal and the rest of the DFC's debt to their debtor, without prejudice to any judgment issued against him under the preceeding paragraph.

Article 23 - During the first ten (10) years of their existence, from the date of issuance of the Decree authorizing their operation, the DFCs shall be exempt from payment of the taxes due to the Government, and in particular of:

- Operation income tax
- Undistributed earnings tax
- Any tax or levy on liberalities received.

All shares shall be free of stamp and share duties, and any share of capital introduced by a shareholder shall be deductible from his taxable income during five years, from the date of introduction.

Article 24 - The DFCs shall appoint auditors in order to carry out an annual audit of their financial statement. They shall also publish, quarterly, a balance sheet in the official gazette of Haiti, and also in a newspaper with a wide circulation in the country.

Article 25 - The DFC's transactions shall be controlled according to the provisions of the applicable laws concerning operation of financial institutions in Haiti

Article 26 - This Law rescinds all other laws or regulations, and decrees, which might be contrary, particularly the October 10, 1979 Decree in its whole, and will be issued and executed by the Ministers of Finance and Economic Affairs, of Commerce and Industry, and of Planning, respectively.

Made and executed at the National Palace in Port-au-Prince on August 16, 1982.

JEAN-CLAUDE DUVALIER
PRESIDENT

By:

A R T I C L E S

FORM, OBJECTIVE, NAME, HEAD OFFICE AND DURATION

Article 1.- Company Form

Between the holders of the shares hereinafter delivered, and of those that might be delivered later on, it is hereby formed a corporation under the laws of the Republic of Haiti applicable thereto, and according to these Articles.

Article 2.- Objective

The objective of the Corporation is to develop and promote businesses able to contribute to the economic development of the Republic of Haiti, and more particularly:

a) to grant loans with interests at short, medium, and long term, with or without grace period regarding amortization, with or without joint or personal mortgages, for the establishment, betterment, or extension of industrial, agricultural and agro-industrial projects, as well as projects including breeding of large and medium-sized stocks, processing of stock-farm produces, and any other activity able to promote agricultural production, tourism, public means of conveyance, hotels and related services;

b) to organize enterprises under the above paragraph, promote and plan the establishment thereof;

c) to share profits in such enterprises, and guarantee all or part of their obligations, bonds or securities without form restriction;

d) to supply technical assistance for implementation, organization, and administrative studies regarding the entreprises;

e) to receive monies, whatever their source may be, in compliance with administrative contracts or agreements;

f) to issue fixed or variable rent certificates with general or specific guarantees such as bonds, mortgage deeds or any other securities;

g) to assume obligations with national or foreign credit institutions, under the form of loans, securities (bonds, mortgage deeds or stocks), endorsements, or under any other form, with or without other public or private institutions' guarantee;

h) to obtain imprests, credit lines, and loans,

i) to keep all or part of the amounts of the thus granted credits, with the right to levy a liability commission on said funds, to receive, obtain refundable or non-refundable imprests from national, foreign or international, governmental or non-governmental agencies;

j) to pay or accept, on behalf of finance enterprises and against proof of payment concerning the importation and exportation of goods, or local trade transactions, being understood that such documents that specify the negotiated or shipped goods must be retained by the Corporation, in order to control the movements of money, and to guarantee reimbursement of credits, or that said payments must be guaranteed at the time of the acknowledgement on warrant or any similar document, enabling the institution to control the thus covered goods;

k) to make deposits in local or foreign banks;

l) to place obligations, shares and any other securities issued by third parties against a commission, and guarantee or not the total or part thereof.

In general, the Corporation may operate industrial, commercial, financial, personal or real estate transactions, directly or indirectly related to

the above objectives and able to promote and achieve them.

Article 3.- Corporation's Name

The name fo the Corporation shall be "SOCIETE FINANCIERE HAITIENNE DE DEVELOPPEMENT, S.A. (SFHD, S.A.) (Haitian Finance Development Corporation).

Article 4.- Registered Office

The Corporation's registered office shall be at Port-au-Prince. This head office may be moved to any other location, on the Board's decision, who may also create one or several daughter companies, subsidiaries, or counters on the Haitian territory or abroad, subject to ratification of such decision by the Ordinary General Meeting.

Article 5.- Duration

The Corporation's duration is unlimited, except in case of anticipated dissolution under these Articles and according to the laws and regulations in force.

CHAPTER II

REGISTERED CAPITAL - SHARES

Article 6.- Authorized Registered Capital

The registered capital authorized is fixed up to
GOURDES, divided into
shares of GOURDES each.
All the shares shall be subscribed in cash. They shall be paid in on the following conditions:

- 50% at subscription
- The remaining at the time and conditions determined by the Board of Directors, but within a maximum period of two years, from the date of the Decree or notice authorizing the Corporation's operation.

The shareholders shall be informed of the capital call-up at least one month before the period of payment, by registered letter with acknowledgement of receipt. Shareholders may, from time to time, pay in in anticipation.

Owners of unpaid share certificates, assignees, middlemen, and subscribers shall, jointly and severally, be bound to the amount of said shares.

In case of failure to pay-in the shares at the above mentioned times, the amounts due shall produce, day by day and without legal claim, an interest of 6% per annum from the date of maturity. The Corporation shall use any or all legal means to recover said unpaid amounts.

Article 7.- Registered Capital Increase

The registered capital may be increased either by issuing new shares representing the cash contribution, or by converting the Corporation's liquid assets and the received donations into shares. Capital increases are decided or authorized by the Extraordinary General Meeting of the shareholders , who shall determine the conditions of new issuances and give full powers to the Board of Directors to render them effective within a period of not more than two years.

Article 8.- Reduction of the Registered Capital

The registered capital may be written down by decision of the Extraordinary General Meeting for the Corporation's good operation and in any manner, whatsoever, e.g. by repurchasing shares or by reducing their face value, or by reducing the number of securities within the limits authorized by the law.

Article 9.- The share issued shall all be registered shares.

Share certificates or registered securities shall be extracted from a counterfoil register kept at the Corporation's head office. Said certificates shall bear the number corresponding thereto, the number of shares represented, the Corporation's name, and the subscribed and paid-in capital, as well as the date of issuance. They shall also bear the Corporation's seal, and shall be signed by the Chairman and the Secretary to the Board of Directors.

Registered share transfers shall be done by written notice signed by the assignor or the assignee, and entered in a share and transfer ledger especially kept at the registered office.
However, before they sell or assign any share, a shareholder shall offer them first to the Corporation, and then to the other shareholders at the prorata of the number of shares owned by each shareholder, by written tender signed by himself or by a special proxy;
such tender shall be written down in the Corporation's corresponding register kept at the Corporation's head office. The Corporation and the other shareholders shall have an option period of one month following the date of the tender, to purchase the thus offered shares; after this period, the sale of the shares may be done to another party. The shares shall be offered at the price determined by the Shareholders General Meeting

The Board of Directors may make the necessary provisions as to make sure that the tender is sent to each interested party by cable or by any other means, within the eight days following the tender. Any share sold under breach of these provisions shall not be included in the Corporation's registers and shall be considered null and void.

Article 10.- In case of conversion of a category of shares into another category of shares, or in case of transfer, the old shares shall be declared null and void by a corresponding mark on the share certificates signed by the Board Chairman or Secretary; this mark shall be entered into the share transfer register.

.../..

Article 11.- As regards the Corporation, all shares are indivisible. Consequently, each share shall have only one official owner.

Article 12.- Loss or Destruction of Share Certificates

In case of loss or destruction of the share certificates, a new certificate may be issued to the owner in order to replace the lost shares, subject to the following formalities:

a) Written and certified declaration of loss or destruction of the share certificate requesting nullification of the lost or destructed certificate and its replacement by a new one;

b) Simultaneously, publication of said declaration in two of the most important newspapers with a wide circulation in Haiti, at least twice and at an interval of one week between each publication. Proof of publication shall be given by filing copies of above mentioned newspapers at the Registered Office. In case of objection by any person at the issue of a new share certificate, no new certificate shall be issued until amicable settlement is reached between the plaintiff and the defendant, or until a judgement is issued by the competent court. Share certificates issued under the provisions of this clause shall mention replacement of the lost or destructed certificate.

Article 13.- Shareholders' limited liability

Shareholders are liable but up to the amount of the shares they hold; any capital call-up shall be prohibited above this amount. As regards participation in the registered assets, each share shall give right to a proratable part in the number of shares and also a proratable part in the profits.

Article 14.- Yielding of rights - Seals

The rights and obligations attached to a share shall be assigned with the share.
Holding a share shall by right mean acceptance of these articles and the decisions made by the General Meeting.

Shareholders' heirs, assignees and creditors may not, for any reason, whatsoever, request the affixing of seals on the Corporation's properties and documents, nor distribution or sale thereof by auction, nor interfer in the Corporation's management. In order to exercise their rights, shareholders' heirs, assignees and creditors must refer to the stock schedules and the General Meeting decisions.

Article 15.- Issue of Bonds

Bonds maybe issued on decision of the Ordinary General Meeting. The issue of bonds convertible into or exchangeable against shares shall be done by the Extraordinary General Meeting

Article 16.- General Meetings - Calling

The shareholders shall held Ordinary and Extraordinary General Meetings. The Ordinary General Meetings may have extraordinary sessions beyond the date of their arrival session. The decisions of the general meetings are final and the resolution thereof shall bind all the shareholders, present, absent, dissenting or inapt.

The Ordinary General Meeting is called by the Board of Directors to meet extraordinarily, when the latter deems it necessary.
Furthermore, the General Meetings may be called by the Board Chairman, in case it should not be possible for the Board to meet.

Shareholders representing at least 25% of the subscribed and paid-in capital may request a General Meeting by submitting an agenda to the Corporation's President or to the Board of Directors who shall satisfy said request within the time required by the Law and these Articles.

The General Meeting thus required shall be called by notice published in a newspaper with a wide circulation in Haiti. The organ calling the meeting shall, in addition, give notice to the shareholders by registered letter with acknowledgement of receipt or by cable. Such notice shall bind the shareholders who reside abroad and whose address is included in the shares register. The notice shall briefly mention the object of the meeting. The meetings shall be held at the Corporation's head office or in the place of the national territory mentioned in the notice.

Article 17.- Agenda - Attendance List

The Agenda of the General Meeting shall be prepared by the party requesting this General Meeting.

Only the items of the Agenda shall be discussed at the General Meeting, except otherwise provided by the Law.

Shareholders representing least 25% of the subscribed and paid-in capital may submit suggestions to be included in the Agenda, subject that all necessary information is given in writing by the Board's Secretary as to the locations provided by these Articles. Before a shareholders' General Meeting, the Secretary shall write down and keep an updated attendance list with the names and address of the shareholders present or represented, the number of shares held by these shareholders, and the number of related votes. Said list shall be initialled by all shareholders present or represented, certified by the Board of Directors, and filed at the head office for information of other parties, on request. Any proxy issed must be deposited at the head office within at least five days before the meeting .

Article 18.- Board of the General Meeting

The General Meeting is presided over by the Board of Directors' Chairman or by a director appointed to this end by the Board of Directors.

Two shareholders representing, either themselves or by proxy the majority of the shares shall act as tellers; in case of refusal, the next two shareholders complying with the same conditions shall be appointed, and so on, until acceptance is reached. The board of the General Meeting appoints a secretary who may not be a participant in the meeting.

An attendance sheet shall be kept and initialled by the present shareholders or by their representatives, and certified true by the Board of the meeting, and filed at the head office for the information of third parties on request.

The board of the General Meeting shall only be responsible for the meeting normal proceedings.

Article 19 - Minutes of Proceedings

The deliberations of the General Meeting shall be stated in the minutes of proceedings which shall be written down in a special register marked and initialled by the members of the meeting board.

Any justification to third parties or any justification at court concerning the deliberations of the Meeting shall consist of the copies and extracts of the certified minutes signed by the Chairman of the Board of Directors. After dissolution of the Corporation and during the liquidation, said copies and extracts shall be signed by the one or several liquidators appointed, as the case may be.

Article 20.- Deliberations and consequences thereof

A qualified General Meeting represents the totality of the shareholders; the General Meeting deliberations binds all the shareholders present, absent, dissenting or inapt.

Article 21.- Ordinary General Meeting

The shareholders Ordinary General Meeting is held once a year to discuss all matters regarding the Corporation's current activities during the past fiscal year.

The shareholders Ordinary General Meeting meets to the following purposes:

a) Appoint the Directors, and the Auditors, as the case may be;

b) Ratify the Board's report, discuss, approve, amend, or review the accounts, being understood that discussions regarding approval of the accounts shall be null and void if not preceeded by the consideration of the Auditors' Report;

c) Make any decision regarding the profits sharing the dividends distribution.

d) Approve the budgeted accounts;

e) Give decision on any authorization or special powers to be granted to the Board of Directors and generally take cognizance of all matters submitted by the Board of Directors.

The shareholders Ordinary General Meeting shall be held at the Corporation's head office at least on the Second Monday of March of each year at 10 A.M. If this day is a holiday, it shall be held on the next working day at the same time, without notice and it shall be qualified to deliberate when the shareholders representing at least 50% of the subcribed and paid-in capital are present. Any decision shall be taken by outright majority of the present members.

Article 22.- The Ordinary General Meeting held extraordinarily shall also have cognizance of all actions and transactions regarding the Corporation's management and administration, of the applications or interpretations of these Articles which are beyond the powers of the Board of Directors, the Ordinary General Meeting held extraordinarily shall have the same powers as the Annual Ordinary General meeting when for any reason, whatsoever the latter could not meet at the fixed date or when urgent matters need to be discussed before said annual session

The Ordinary General Meeting shall be called extraordinarily by notice given thirty days in advance. In case the quorum should not be reached at the first meeting, a second notice shall be given after fifteen days, and so on. The Ordinary General Meeting shall be qualified to deliberate on the same quorum conditions as those of the Annual Ordinary Meeting.

Article 23.- Extraordinary General Meeting

The Extraordinary General Meeting shall have cognizance of all matters regarding the amendment of these Articles and shall be entitled to:

a) Increase or reduce the registered capital;

b) Create and issue, against payment, preferential shares with priority right on the profits or on the assets, or on both, subject to the legal provisions in force;

c) Decide to purchase or to take over any corporation through the purchase of shares or in any other manner such as the purchase of shares granting a majority;

d) Decide the Corporation's dissolution;

e) Decide the Corporation's total or partial merger with other corporations duly organized;

f) Authorize total or partial amendment of the Corporation's aims, and if necessary, change its name;

g) Determine the system of total or partial amortization of the Corporation's capital, under the conditions specified by the General Meeting, while keeping the principle of parity among the shareholders, and on the condition that said amortization shall be done only by using the registered profits or the reserves which shall not be legal reserves;

h) Amend or extend the powers of the Board of Directors and the President;

i) Make any amendment of these Articles, subject to the legal provisions regarding the General Meeting composition, the manner of recounting the votes, and the number of members within the Board of Directors.

The Extraordinary General Meeting shall be called by notice of thirty days given in advance, and in case the quorum should not be reached at the first meeting, the following meetings shall be called by notice of fifteen days. The extraordinary general meeting shall be qualified to deliberate, when at least two-third of the subscribed, paid-in shares with right to vote are present or represented. However, at the second meeting and at the following meetings, only the presence of shareholders representing

50% of the shares shall be required. All decisions shall be taken at majority of two-third of the present members. No proxy shall participate in the discussions and deliberations, nor shall they have the right to vote at an ordinary, extraordinary general meeting, or at a regular general meeting, if he is not himself a shareholder.

CORPORATION'S MANAGEMENT

Article 24 - Organization of the Board of Directors

A Board of Directors composed of at least 5, and at the utmost 12 members shall manage and administrate the Corporation. Said members shall remain in place until their replacement by other directors. The duration of the Board members appointment shall be one year; said members may be indefinitely re-appointed.

Article 25 - Any applicant whishing to become a member of the Board must own at least ten fully paid-in shares. The directors must pay-in at least five of said shares to guarantee their appointment, without prejudice to the other guarantees required by the Board for any particular function.

Article 26 - Immediately after their appointment by the General Meeting, the Board members shall appoint one Chairman, one or several Vice-Chairmen, one Secretary, and one Treasurer, who shall remain in function during a year and shall be reeligible. Legal entities may apply for membership within the Board of Directors; they shall be represented at the Board by one individual duly appointed by mandate, the duration of which shall be evaluated by the majority of the Board members. Said representative may only be replaced subject to notice given ten days in advance to the Board, who shall accept him in the above described manner.

Article 27 - Replacement of Board Members

If, during appointment of the Board of Directors, a vacancy occurs among its members, the remaining members shall appoint, within fifteen days following said vacancy, another member who shall remain in function until the next shareholders Annual General Meeting; this meeting shall appoint a permanent member to fill the vacancy. If the Board does not appoint a new member, and if many vacancies occur, so that the Board of Directors cannot deliberate because the quorum is not reached, anyone of the remaining members shall immediately call a general meeting to appoint the required number of members.

Article 28 - Any Board member who is absent at three consecutive meetings without Board authorization, shall be considered dismissed, and the Board shall replace him under the above mentioned provisions.

Article 29 - Notice of Meetings - Meeting Place - Deliberations - Voting

From the first year following constitution of its board, the Board of Directors shall determine the dates and places, at which and where it shall held its meetings without advance notice. The Board shall meet extraordinarily on call by the President or by its representative, or on call by two Board members with notice given at least three days in advance It shall meet at the head office or in any other location it shall determine. The presence of the majority of members shall be required to qualify deliberations and decisions, which shall be taken at simple majority of the present members' votes. Any absent or unable Board member cannot appoint but another Board member to represent him at a meeting.

Article 30 - Minutes of Proceedings

The Board Deliberations shall be stated in minutes that shall be included in a special register kept at the Corporation's head office, and that shall be marked and initialled consequently. Minutes of proceedings shall be signed by the meeting Chairman and Secretary.

.../...

Article 31 - Powers

The Board of Directors shall manage, direct, and administrate the Corporation, and shall determine the general policy of the Corporation, within the limits determined by the General Meeting. The following list of powers shall not be all-inclusive and restrictive;

The Board of Directors shall be entittled to:

a) Permanently or temporarily give any kind of mandates and hand over any powers;

b) Appoint and dismiss any employee, determine their wages, salary, or participation, as well as any employment and dismissal terms;

c) Determine overhead expenses;

d) Authorize creation of subsidiaries and the appointment of agencies in any location of the Republic or abroad;

e) Determine the amount of disposable funds;

f) Authorize signature of any kind of contract;

g) Decide the construction of buildings for the Corporation;

h) Accept loans on the conditions it shall deem acceptable by opening of credits or else;

i) Purchase and sell the Corporation's properties, personal or real estates, and negotiate any kind of credit;

j) Subscribe, purchase, sell or assign shares to any haitian or foreign company authorized or in the proceed of organization;

k) Accept mortgages, make transactions, compromises, or sign any withdrawal or discharge, yield privileges, mortgage, waive any condition of avoidance and any other rights.

l) Determine the amortizations, distributions and dividends on the effectively realized profits;

m) Replace the audits within the limits authorized by the law;

n) Recommend the General Meeting any profit distribution based on the balance sheet within the limits authorized by the law and those of any accepted binding agreement.

Article 32 - Powers of the Board Chairman

The Chairman of the Board of Directors is the President and General Manager of the Corporation. These duties are executive according to the law, within the frame of the Board and Shareholders general assemblies deliberations and under the control of the Board of Directors. In particular:

a) He shall represent the Corporation vis-à-vis any private or public entity;

b) He shall preside over the shareholders general meetings as well as those of the Board of Directors, and shall sign any act or document issued by these agencies;

c) He shall represent the Corporation at court as plaintif or as defendant;

d) He shall keep inventories, make profit and loss statements as well as establish the balance sheets, which must be submitted each year to the General Meeting after approval of the Board of Directors, and in general manage within the limits of Article 31 of these Articles.

Article 33 - Powers of the Vice-Chairmen

The Vice-Chairmen shall have the functions determined by the General Meeting, the Board of Directors, or the President.
The Secretary shall be responsible for the correspondence and the Corporation's archives and shall accomplish the other functions imposed to him by the Board of Directors.

The Treasurer shall be responsible for the accounts and for all financial matters of the Corporation within the frame of the powers conferred to him by the General Meeting of the shareholders and by the Board of Directors.

CORPORATION'S BALANCE SHEET AND PROFIT DISTRIBUTION

Article 34.- Fiscal Year

The fiscal year commence on January 1, and end on December 31, of each year. Exceptionnally, the first year shall commence on the date of the Decree or the authorization giving the Corporation the right to operate, and end on . Any action taken on behalf of the Corporation and accepted by the latter shall be attached to this fiscal year.

Article 35.- Corporation's Balance Sheet and Board Report

An inventory shall be made each year and contain the Corporation's assets and liabilities, the Profit and Loss Statement, and a Balance Sheet.

The Balance Sheet as well as the Profit and Loss Statement shall be presented each year under the same form as the preceeding years, and the evaluation system of the different items shall not change, unless the Ordinary General Meeting approves each one of the amendments regarding the accounts presentation or the evaluation concerning such amendments. The Profit and Loss Statement shall indicate, under seperate items, the profits and losses and their source. The inventory, balance sheet and profit and loss statement shall be kept at the auditors' disposal thirty days at least before the date of the annual ordinary general meeting, and presented to said meeting by the Board of Directors.

Article 36.- Shareholders' Information Right

Within the fifteen days preceeding the annual Ordinary General Meeting, the inventory, the balance sheet, and the profit and loss statement as well as all documents which must legally be submitted to this meeting, and the shareholders' list shall be kept at the disposal of the shareholders at the head office.

Furthermore, any shareholder may, from time to time throughout the

year, take cognizance or request a copy, personnally or thru a representative, of any document submitted to the general meetings during the past three years, and copy of these meetings' minutes of proceedings from the Head Office.

Article 37.- Payment of Dividends

The time, manner,and place of payment of the dividends shall be determined by the Board of Directors.
However, the effective payment of said dividends shall take place within a maximum period on nine months following the closing of the fiscal year. Any dividend, that should not be claimed within five years shall be barred according to the Law.

Article 38.- Dissolution

Dissolution of the Corporation shall occur when the net assets become less than 25% of the registered capital due to the losses stated in the accounting documents. Dissolution may also occur by decision of the Extraordinary General Meeting or by court judgement.

LIQUIDATION

In case of dissolution for any reason whatsoever, the Ordinary General Meeting shall, on proposal of the Board of Directors, determine the mode of liquidation and appoint one or several liquidators, whose powers and wages it shall fix. This appointment shall end the powers of the directors who shall deliver their accounts to the liquidators.
The liquidation net proceeds shall be used, after settlement of the liabilities and charges of the Corporation, to fully redeem the stock capital and the surplus shall be distributed among the shareholders.
The partners shall meet at the end of the liquidation to ratify the final accounts and the liquidators' final discharge.

LITIGATIONS

Any litigation occuring during the Corporation's life or liquidation, either among the shareholders regarding the Corporation's business, or between the shareholders and the Corporation, shall be submitted to the arbitration of the Civil Court of Port-au-Prince. To this end, shareholders shall elect domicile at Port-au-Prince. In default of dimicile election, the notifications given at the Public Prosecutor's Room at the Civil Court of Port-au-Prince shall be valid.

HAITIAN DEVELOPMENT FINANCE CORPORATION (DFC)

STATEMENT OF POLICY AND OPERATIONAL GUIDELINES (PROPOSED)

I. OBJECTIVES

The overall goal of this A.I.D. supported project is to stimulate substantial industrial growth in both the manufacturing and agricultural sectors of Haiti, resulting in increased levels of employment and income. The proposed project will contribute to the achievement of this goal by promoting and facilitating domestic and foreign investment in Haiti, especially in agriculture-oriented processing industries and labor-intensive operations that maximize in-country value added to their products. The purpose of the project is to establish a Development Finance Corporation to provide medium/long term credit and investment services to investors for industrial projects in Haiti. The total amount of financing to be made available by A I D under the project will be $5 million in a direct grant to the DFC of which $4.00 million will be repayable to a special trust fund.

II. AREAS OF OPERATIONS

In order to maximize the economic impact of its activities, the DFC will concentrate its lending efforts on productive enterprises in three broad categories. The first is agro-industrial operations, which includes all businesses that are active in either food or beverage processing, ranging from poultry farms to breweries. Primary producers -- i.e., sugar cane farmers, mango growers -- were omitted from the list of businesses. The second category includes assembly businesses, that are essentially subcontractors for foreign firms. They are generally provided with the capital equipment and raw materials, add labor to the value of the product through a simple or a series of simple assembly operations, and then re-export the finished/semi-finished goods back to the foreign supplier. The distinguishing trademark of these businesses is that the owners put very little into the fixed assets of the operations, and determine their revenues almost solely through the sale of labor used in the value-added process. The third category is comprised of manufacturing operations which are producing predominantly for the local market. They are easily differentiated from the assembly operations in that they generally purchase their own raw material and capital equipment, and are also often responsible for marketing their products to a local distributor or directly to the end user/consumer.

In each of these categories primary consideration will be given to the following type of businesses:

a) exporters of goods manufactured wholly or primarily from local raw materials (agro-industry for example);

b) exporters of goods produced from a mix of imported and local raw materials;

c) exporters of goods from imported raw materials with at least a 25% domestic value added;

d) producers for the local market with local raw materials

e) producers of import substitutes from imported raw materials with substantial domestic value added or cost savings;

f) companies whose operation directly enhances the ability of other companies to earn foreign exchange (such as services for the tourist industry, a trucker of agricultural products, etc.).

Where projects are otherwise of similar financial quality, the DFC should consider factors such as the amount of domestic value added, overall employment generation, geographic location, use of specific agricultural raw materials, environmental impact, employment of the unskilled poor, and employment of women.

III. ELIGIBLE BORROWERS

For the purpose of the Project, eligible private sector borrowers are defined as those operating in the above mentioned sectors with the following size prior to receipt of loans from the DFC.

A. Small : Total assets of less than $500,000 and between 20-100 employees.

B. Medium: Total assets ranging from $500,000 to $1,500,000 with 101-200 employees.

C. Large : Total assets over $1,500,000 and over 200 employees.

Only privately owned "for profit" business ventures with substantial Haitian ownership will be eligible. Government enterprises and enterprises which are engaged in commodity trading, real estate development, agriculture farming, or of a speculative nature will not be eligible for financing under this Project. However, enterprises with a minimum public sector participation will be eligible for financing provided they are private, indigenous, independently controlled and managed, and are financially and commercially viable.

In addition to existing enterprises, promising new ventures may, at the discretion of the DFC, be assisted if they are promoted by capable enterpreneurs and/or individuals experienced in their line of business.

IV. FINANCIAL POLICIES

A. Use of Funds

The DFC's objective is to increase the productive capacity of eligible enterprises and to meet the need for intermediate term credit at

floating or fixed rates. Funds provided by the DFC may not be used to refinance existing borrowings but it is recognized that as part of a new, larger financing package term loans from other lenders may be acquired to obtain satisfactory collateral for the DFC. Project loan proceeds may not be used as a substitute for short-term working capital. Loan proceeds may be used for the financing of fixed assets including land, building, machinery, equipment, and vehicles and related expenses. Certain portions of working capital represent a minimum/permanent working capital often financed from equity. If short term financing is not available because the DFC has all of a company's security, it should consider either sharing security or financing at least some of the working capital need.

B. Structure of Financial Package

1. Size of Loans

In order to ensure that the DFC does not excessively risk its equity capital, the maximum size of loans made to individual borrowers or groups of borrowers with similar ownership will be limited to 15% of DFC equity at the time a loan is made. A.I.D. and the DFC will review this limit periodically, and if need is demonstrated,these limits may be modified by mutual agreement.

2. Terms of Loans to Sub-Borrowers

The DFC will appraise individual projects and establish approximate lending terms and conditions on the basis of its appraisal. In general the following terms will apply:

a. Loan Maturities

Term loans to eligible borrowers will have a maximum term of eight years including a grace period of up to two years.

b. Repayments

Repayments will be made through equal semi-annual or quarterly installments, as appropriate.

c. Interest Rate

The interest rate on the loans from the Project will normally be the maximum obtainable under market conditions. Any term loan may provide for an adjustable (floating) or fixed interest rate. In addition the DFC may charge a service fee and loan initiation fee if deemed appropriate. The interest rate on any working capital and other facilities provided to borrowers will be at DFC's prevailing rates.

d. Penalties

Penalties for late payment will be charged in accordance with local practice. However, normally there will be no penalty for prepayments.

e. Restriction on Borrowings

Total borrowings of clients, including short-term facilities, may not normally exceed three times clients' net worth. Borrowings and other forms of credit obtained outside the Project will be subject to other reasonable restrictions.

C. A.I.D. Conditions

In order to comply with the A.I.D. Project Agreement the DFC will adhere to the following conditions unless it is mutually agreed by A.I.D. and the DFC to modify these conditions:

1. Not declare or pay any cash dividends during the grace period until such time as the DFC has realized two consecutive years of profit, furthermore the amount declared and paid should not exceed 10% of that year's profits.

2. Establish an evaluation program as part of the project. The program will include, during the implementation of the Project and at one or more points including prior to disbursements of Loan funds in excess of $2,000,000 and at the end of the project, the following:

   a. An evaluation of progress toward attainment of the objectives of the project;

   b. Identification and examination of problem areas or obstacles to accomplishment of project objectives;

   c. Evaluation, to the degree feasible, of the overall development impact of the Project;

3. Not use A.I.D. funds to pay administrative or operating expenses of the DFC.

4. Without prior A.I.D. approval make no sub-loans or guarantees to, or equity investments in business or other activities in which any member of the Board of Directors, officer or employee of the DFC or their immediate family has a financial interest;

5. Maintain a reserve for bad debts of at least two percent (2%) of all outstanding loans;

6. Not incur any indebtedness which would enjoy a position superior to the obligation incurred under the A.I.D. Loan;

7. Use reflows of subloan principal and interest in conformity with the purposes of the Project;

8. Submit a report to A.I.D. each quarter during the life of this Agreement. Each report will contain a breakdown of subprojects, showing types of industry, commitments and disbursements, terms and conditions of financing, uses of DFC and A.I.D. funds, an aging of accounts and other comments as appropriate.

9. Amend or modify its corporate charter, by-laws or undergo any type of corporate reorganization without prior approval of A.I.D.

10. DFC will not incur short-or long term liabilities which cause the debt/equity ratio of DFC to exceed five to one (5/1) through the fifth year, and if DFC remain profitable increasing to 6/1, 7/1... in successive years until maximum of 10/1 is reached in tenth year.

11. Not undertake equity financing of sub-projects during the first three years of operations and limit such participation to no more than 20% of equity, or 5% of total assests, whichever is lower.

12. Limit the maximum total amount of outstanding loans and or guarantees to any sub-borrower or groups of borrowers with similar ownership to no more than 15% of the DFC's equity base at the time sub-loans/guarantees are made.

13. Repay the A.I.D. loan (principal and interest) in Gourdes to an independent trust fund.

14. Will submit for A.I.D. approval a policy regarding the use of guarantees prior to issuance of any guarantee.

15. Engage the services of an internationally recognized accounting firm to carry out its annual audits.

V. CLIENT SUPPORT SERVICES

The DFC will provide, to the extent normal in good banking practice, limited services to borrowers . These services are aimed at assisting clients to manage their enterprises more efficiently. Customers will receive assistance in responding to specific problems that may arise from time to time and in the preparation of loan applications.

The scope of business advisory services will include the following:

(1) accounting, budgeting, management of cash, and credit;

(2) marketing, purchasing, and inventory control;

(3) plant and equipment maintenance and production matters;

(4) company organization and office and personnel management;

VI. RELATIONSHIP WITH OTHER FINANCIAL INSTITUTIONS

In order to foster common objectives of economic development through the provision of financial assistance, including loan syndications, to Haitian entrepreneurs, the DFC will develop professional relationships with other institutions interested in private sector development. These are the commercial banks, the Industrial Development Fund (FDI), supported by the IBRD, and the IDB funded government development bank, IDAI. The DFC will explore areas of common interest and will work closely with such institutions.

VII. REPORTING REQUIREMENTS FOR A.I.D.

A. Quarterly

The DFC will provide A.I.D. with reports on new borrowers, a cumulative statistical review of the Project's progress and financial statements[1] within 30 days of the end of each quarter. Reports on borrowers will contain the following information:

1. New Borrowers

A brief description of each new borrower including the nature of business, the purpose and the developmental objectives of the loan, total assets before and after financing, term loans overdraft and other facilities provided by the DFC, and the component of term loans provided by A.I.D. Details of funds committed but not disbursed and of funds disbursed will also be included.

2. Statistical Review

Separate cumulative totals of funds and other facilities provided by A.I.D. and other donors. An analysis of total funds outstanding, size of firms and location will be provided. The review will also include a summary of funds outstanding, classified by size of borrower, separately showing term loans provided by A.I.D. on a cumulative basis;

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1 The financial statements should include, at a minimum, balance sheets, profit and loss statements, cash flows, and loan status and arrears reports.

B. Annually

1. Statistical Review and Other Reports

The DFC will, within 120 days of its financial year end, provide A.I.D. with a brief summary of each borrower's financial condition, and with a cumulative statistical review providing information detailed in Paragraph VII A 2. above and an explanation of how the developmental criteria of the loan agreement has been met.

2 Audited Financial Statement

The DFC will, within 120 days of its financial year end, provide A.I.D. with annual reports and audited financial statements and other normal management information reports.

VIII. OPERATIONAL GUIDELINES FOR CREDIT EVALUATION AND SUPERVISION

A. Evaluation of Projects

DFC will carry out a thorough investigation of the background of potential borrowers and their existing operations, covering at a minimum the following broad areas, before undertaking a detailed analysis of projects to be financed under the scheme:

- Line of business.
- Ownership.
- Management and directors.
- Business history.
- Banking and other financial relationships.
- Products.
- Production facilities.
- Suppliers and trade reputation.
- Distribution system and selling terms.
- Affiliated companies and related business connections.
- Financial statements for the last three years where applicable.

DFC will utilize special application forms in order to consider proposals for financial assistance from borrowers, to obtain the minumum information requirements related to proposed projects. This form will at least include information relating to the following broad areas:

- A general description of the project.
- The market for the borrower's products, competition, and distribution arrangement.
- An estimate of development expenses.
- An estimate of total fixed capital requirements.
- An estimate of working capital requirements.
- The proposed financial structure of the borrower and related financial arrangements.

- -- Estimated drawdown of funds.
- -- Projected financial statements, including balance sheets, profit and loss accounts, and cash flows for the period of the loan, details of assumptions used and their justification.
- -- A list of key personnel and their experience in the line or business
- -- Security to be offered.
- -- Any special problems likely to be encouraged in obtaining the security such an availability of title, deeds, etc.

The DFC staff responsible for the credit evaluation and loan supervision functions will be assisted by the proposed technical assistance team to develop the forms and procedures necessary to carry out a reasonably detailed analysis of the borrower's project. They will be responsible for carrying out the required credit analysis to enable the DFC to come to judgment on the credit risks associated with overall viability of the project, particularly the borrower's ability to repay the loans requested under the project.

B. Structure of Loans

DFC will structure the financial package for each borrower to ensure that fixed assets are a primarily financed by either borrower's equity or term loans. Most current assets are appropriately financed by commercial banking facilities, but it is recognized that permanent working capital needs may properly be financed with long term resources. DFC will determine the repayment period of its term loans, keeping in mind the reasonable cash flow generation expected from the borrower's business, allowing a margin for contingencies, reasonable costs and profits.

C. Negotiations with Customers

DFC will conduct negotiations with each borrower, after the detailed credit analysis is completed, with a view to agreeing on the relative rights and responsibilities of the DFC and the borrowers, which will be reflected in a loan agreement tailored to meet the particular needs of the borrower. The loan agreement should cover the following broad terms:

- -- Principal loan term.
- -- Commitment and administrative fees.
- -- Repayment provisions and arrearage limits.
- -- Security to be taken and supporting documents.
- -- Affirmative and negative covenants including reasonable restrictions on the ratio of borrowings to owners equity, current ratio and quick ratio.
- -- Condition precedent to disbursement.
- -- Events, operation and effect of default
- -- Required documentation.
- -- Miscellaneous conditions.
- -- Cash flow coverage of debt service
- -- Provision for submission of financial statements which are audited or prepared in accordance with generally accepted accounting principles.

To the extent permitted by local laws, the DFC may secure credits extended under the project by a first charge over the borrower's assets, including fixed and current assets, through the execution of appropriate legal documentation prior to making disbursements. The DFC may, at its descretion, obtain additional collateral security, including personnel or corporate guarantees, to secure loans made under the Project.

D. Quarterly Follow-up

DFC will obtain and review the following information from borrowers on a quarterly basis, to enable it to review borrower's progress on an on-going basis and to comply with its obligations under the A.I.D. Agreement:

1. An unaudited balance sheet and profit and loss account, and related cash-flow statement;

2. A statement of inventory, goods in process and finished goods, at cost;

3. A statement of accounts payable, suitably aged; and

4. A statement of accounts receivable, suitably aged.

If as a result of the quarterly follow-up it is noted that the client's performance could be improved with the assistance of outside consultants of DFC, the client will be encouraged to make use of these services.

F. Annual Review

A formal review of each outstanding loan and other investments or guarantees will be carried out by DFC at least once a year, and preferably immediately after receipt of interim or audited annual financial statements from borrowers.

The review has three main objectives:

1. To ascertain that the borrower has complied with all the terms of the loan agreement, both financial and non-financial;

2. To enable DFC to comply with its reporting obligations under the A.I.D. Agreement; and

3. To determine whether the progress of the project, combined with DFC's knowledge of the borrower and its industry, indicates future developments of which DFC and A.I.D. should be aware.

It is suggested that the following broad approach be used by DFC in making the review:

The Past

1. Determine the current financial position of the client and the reasons and events leading to his present condition, whether favorable or unfavorable.

2. Compare the client's performance with the financial projections on file to determine the client's ability to achieve the targets indicated by such projections. Determine all reasons for deviations.

3. Compare all convenants involving financial limits (required working capital, current ratio, dividend restrictions, etc.) with the most recent financial statements to determine compliance; and

4. Other covenants should also be reviewed to ensure compliance.

The Future

1. Based on the review of the past, point out any adverse development that may affect the client's ability to meet required future repayments of the term loan or any other outstanding debt.

2. Identify other future developments in the business that may require external sources of funds (whether debt or equity) or that may affect the client's ability to comply with the loan agreement; and

3. Identify other opportunities to further develop business relationships with other institutions participating in the project.

TECHNICAL ASSISTANCE PLAN

A. EXECUTIVE RECRUITMENT

If acceptable and qualified, candidates for the General Manager position cannot be identified and hired by the DFC's Board of Directors in a timely manner, funds are available to secure the services of a qualified management recruitment firm. The selected firm will be contracted to conduct an executive search for experienced financial professionals who will be presented as candidates to the DFC. This firm will be contracted by AID under normal contracting procedures. The proposed Job Description for the General Manager is included in Annex N "DFC's Job Descriptions".

B. TECHNICAL ASSISTANCE REQUIREMENTS

Three (3) Long-Term Advisors will be contracted by AID to provide 72 person/months of technical assistance to the DFC. The purpose and nature of this technical assistance is discussed in the Project Description Section (III.D 4). Once the Conditions Precedent to Disbursement are met, a request for technical assistance proposal (RFTP) will be issued and published in the Commerce Business Daily in order to solicit proposals from firms capable of fielding a team with the required technical expertise.

An estimated 22 PM of short-term consulting services will be utilized by the DFC. The consultants required on a short-term basis will be selected by the DFC's management on a case by case basis, and will be contracted through the use of usual AID contracting procedures. It is anticipated that these experts will provide specific technical expertise for the DFC in the analysis/evaluation of proposed sub-projects leading to the development of its loan portfolio.

The proposed scopes of work for the long-term advisory team is presented below.

SENIOR ADVISOR

The senior advisor will provide direct assistance to the General Manager and Board of Directors of the DFC in the organization and management of the new company. This individual must be a banking professional who is thoroughly knowledgeable in the management of financial institutions, with special emphasis on development banking experience. He/She should have extensive working experience (10 years) in or with development financing institutions in developing countries, and possess a graduate degree or post baccalaurate training in finance, banking and accounting. French language caapability at the S-3, R-3 level is required.

The advisor will provide technical expertise to the DFC in the areas of financial operations and general management.

The following is illustrative of the senior advisors duties in which he/she will assist the DFC's General Manager in:

1. The development and installation of a management system tailored to the DFC's immediate and medium term organizational needs. This will include, but not be limited to, assistance in the selection and hiring of professional staff; the definition of the DFC's corporate policies, both as a financial institution and development bank; the development and implementation of the DFC's policy and operating guidelines; the preparation of business plans; and the creation of a management reporting system.

2. The development of internal financial analysis and planning systems.

3. The initial development of the DFC's loan portfolio with special emphasis on the definition of lending criteria, utilization of such in sub-project analysis, and the implementation of the loan review/approval process.

4. The identification and selection of training programs appropriate for staff development and improvement. Programs will be selected which will provide international and internal (on-the-job) exposure.

5. The identification and selection of short-term consultants as required to carry out the organizational development activities of the DFC.

6. The identification and selection of audit companies to provide auditing services to the DFC.

7. The preparation, testing and execution of investment of mobilization programs (i.e. bond issues, debentures, certificates of deposit, etc.).

8. Serve as Team Leader for the three person TA Team.

PROJECT ANALYSIS/CREDIT SPECIALIST

The Project Analysis/Credit Advisor will assist in the development and operation of the Loan Evaluation Department. This specialist must possess extensive experience and an in-depth understanding of financial analysis for medium and long-term industrial projects, and analytical techniques for determining project feasibility, (e.g. economic analysis, technical evaluations, etc.). Academic and non-academic training will be required in the areas of project analysis given that a major responsibility of the advisor will be to train DFC staff. Working experience (8-10 years) with investment or development banks in developing countries is desirable, but similar experience with commercial banks or international development institutions in LDCs is acceptable. Fluency in the French language is required at a level of S-3, R-3.

The specialist will be responsible for the following duties:

1. Assist the Chief of the Loan Evaluation Department in the

organization of the department, including the design and implementation of a methodology for the analysis, monitoring and evaluation of projects.

2. Design project appraisal procedures for the identification (screening) and/or development of client proposals aimed at the selection of several industrial projects eligible for DFC financing.

3. The identification and selection of short-term consultants, as required for project analyses, in specific technical fields.

4. The development of specialized project monitoring procedures focussed on the preparation of special reports concerning borrower performance, e.g. payment arrearages, technical and management problems, etc.

LOAN ADMINISTRATION SPECIALIST

The advisor will be recruited in the second-year of project implementation and will provide assistance in the operation of the Loan Administration Department. This specialist must have at least five years of experience in the supervision/monitoring of medium and long-term credit portfolios at commercial banks or development finance institutions in LDCs. A similar level of experience in accounting and/or internal auditing with a public accounting firm or in the appropriate office with an industrial company or banking institution would be extremely valuable and an important asset for this assignment. The consultant selected for this position must have, at a minimum, a Bachelor of Arts or Sciences (or equivalent) in accounting, finance or business administration.

The specialist will be responsible for the following duties:

1. Assist the Chief of the Loan Administration Department in the management of the department, including the evaluation and improvement, where

required, of the DFC's internal accounting and loan monitoring systems.

2. Review of the client reporting systems in order to develop appropriate procedures for tracking the progress of the sub-projects, and to recommend solutions for the resolution of any implementation problems.

3. The implementation of internal staff training programs for the department.

4. Assist in the preparation, review, analysis, and appraisal of the DFC's financial statements.

5. Provide guidance in the selection of appropriate management information and word processing systems for the DFC.

ANNEX L

FINANCIAL TABLES

AND

SUPPORTING DATA

DESCRIPTION OF FINANCIAL MODEL

In order to measure the financial impact of our assumptions on the DFC's operations in the future, a computer model was designed to allow the user to change certain key variables and develop a projected set of balance sheets, income statements and sources and uses of working capital statements. The model simulates the projected operations of the DFC over a ten year period.

The model reflects end of year amounts for balance sheet items, but interest income and expense are computed on average amount outstanding during the period. This is necessary in order to simulate the probable occurrences on the income statement.

A detailed description of the computer model assumptions is provided in this section. It is important to understand how the computer model simulates the financial activities of the DFC in order to understand its capabilities as well as its limitations. The detailed assumptions are provided below for the balance sheet, the income statement, and the sources and uses of funds statement:

Balance Sheet

Cash - Cash shown on the balance sheet is set to equal 1 month's operating expenses in each scenario.

Fixed Deposits - The model uses fixed deposits as a repository for all excess cash. The model will not draw down on the USAID loan to place funds in fixed deposits.

Interest Receivable - Average interest receivable is estimated by the model to equal two months gross operating income. We assume that interest is received semi-annually.

Loan Portfolio - The loan portfolio has been broken down into four independent sub-portfolios for our analysis. The amounts outstanding in each portfolio are a function of the amounts disbursed every year, the grace period on principal repayment and the tenor of the loan in addition to the grace period. The model assumes that loans will be repaid in equal semi-annual principal installments once the grace period is over.

Reserve for Loan Losses - The reserve for loan losses is made up of the accumulated provision for losses taken in every year, less the amount of loans written off in every year. In all scenarios, the amount charged off is equal to 2/3 of the provision taken two year earlier. The amount charged off in each year is subtracted from each of the four portfolios proportionately.

Fixed Assets Net of Depreciation - A beginning assets figure of $50,000 has been assumed with additional purchases of $50,000 in year 3 and $70,000 in year 7. Straight line depreciation is assumed, and this amount is calculated on the basis of an average life of 7 years for all assets.

Current Liabilities - Current liabilities is composed of 1/2 month's operating expenses and three months' interest payable. Three months' interest payable is assumed to be the average amount outstanding given that interest on all debt is to be paid semi-annually.

USAID Loans - The amount of the USAID Loan outstanding in any year is determined as a function of the gross loans disbursed by the DFC. All new loans made by the DFC are funded by the USAID loan until the maximum amount has been reached, or the draw down period on the loan has expired.

Other Long-Term Debt - Once the USAID loan has been fully drawn down or the draw down period has expired, the model will borrow additional money after exhausting all excess cash kept in fixed deposits.

Paid-in Capital - The model reflects the projected amounts of paid-in capital in any given year both on the balance sheet and in the sources and uses of working capital statement. Additional paid-in capital is raised in any year that the debt to equity ratio exceeds the maximum allowed[1]. The model will raise additional paid-in capital in increments of $100,000 until the maximum debt to equity limit is reached.

Retained Earnings - Retained earnings in any year equal the previous year's retained earnings, plus the current year's net income, less any dividends paid during the current year. The amount of dividends paid is controlled by specifying the percentage of net income to be paid out, and dividends will be paid only in the second or two consecutive years of profit.

Income Statements

All interest income and expenses[2] are computed on interest rates which are relative to the prime rate. The prime rate forecast is an input to the model.

Fixed Deposits - Fixed deposit income is computed based on the average balance in the fixed deposit account and the rate differential relative to prime.

1. 5 to 1 during the first five years, increasing to 6 to 1, 7 to 1, 8 to 1, 9 to 1, and 10 to 1 by 1992.
2. except for the fixed rate USAID loan.

Loan Portfolios One through Four - The income on all four portfolios is computed by taking the average balance outstanding in each category in each year and the rate differential relative to prime for each portfolio.

Fee Income on Guarantees - Fee income is computed as a percentage of the total amount of guarantees made in each year.

Loan Closing Fees - Closing Fee income is computed on the actual amounts of loans disbursed in portfolios one through four in every year.

Interest Expense on the USAID Loan - The amount of interest charged on the USAID loan is based on the average outstanding balance in every year, and a specified fixed interest rate.

Other Long-Term Debt - Interest expense on other debt is computed on the average balance outstanding in every year and the interest rate charged relative to the prime.

Provision for Loan Losses - The amount taken as a provision for loan losses is taken on the gross loans outstanding before charge offs in each year.

Loses on Guarantees - Losses on guarantees are calculated as a percentage of guarantees made in prior years.

Operating Expenses - Operating expenses are input directly into the model by the user.

Depreciation - Depreciation is a direct input to the model using straight line, seven-year average life for assets.

Sources and Uses of Working Capital

Sources of working capital are broken down into five categories by the model: Operations, Depreciation, Provision for Loan Losses, Paid-in Capital, and Increase in Long-Term Debt. The uses of working capital are broken down into three categories: Loans Placed, Dividends Paid and Fixed Assets Purchased. The model computes these amounts in every year by looking at the actual changes in the balance sheet items, and the actual amounts on the income statements. The change in net working capital is the change in current assets minus the change in current liabilities in each year.

Yield Analysis and Ratio Analysis

The yield analysis computes the major income statement categories as a percentage of average gross loans outstanding in every year. The yield analysis facilitates the comparison of different scenarios and comparison to other DFC's. The ratio analysis summarized the returns as well as computing the debt to equity ratio in every year and the reserve to gross loans outstanding at the end of every year.

DEVELOPMENT FINANCE COMPANY OF HAITI
PROJECTED INCOME STATEMENT
1985 TO 1992
U.S. DOLLARS
BASE CASE

YEAR	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
OPERATING INCOME										
FEES DEPOSITS	99082	106959	164272	223846	112131	0	0	0	0	0
FORFEITURE # 1	25290	155263	439191	815973	1231167	1602925	1992582	2354573	2732363	3091978
FORFEITURE # 2	17640	81788	184678	288290	364815	435710	518274	599074	689195	778019
FORFEITURE # 3	2080	11410	29769	53423	75346	95824	117947	138339	160286	181338
FORFEITURE # 4	1860	10473	27581	49671	70026	88971	109522	128278	148629	168150
FEES-GUARANTEES	0	0	0	1740	2020	2340	2720	3160	3520	3880
FEES-CLOSINGS	12600	41200	70940	86520	100520	116780	135660	157580	175900	193520
TOTAL OPERATING INCOME	158462	407093	916431	1539463	1956025	2342550	2876706	3381004	3909892	4416884
INTEREST EXPENSE										
BOND LOANS	15750	85000	22317[illegible]	380925	450000	450000	450000	450000	450000	450000
BOND LOANS	0	0	0	0	0	0	0	0	0	0
OTHER LONG TERM DEBT	0	0	0	0	42168	259395	626360	986647	1327168	1633447
TOTAL INTEREST EXPENSE	15750	87000	22317[illegible]	380925	492168	709395	1076360	1436647	1777168	2083447
NET OPERATING INCOME	142712	324093	693256	1158538	1463857	1633155	1800346	1944357	2132724	2333438
OTHER EXPENSES										
PROVISION FOR LOAN LOSSES	9450	39169	86149	135536	183317	229976	279048	329011	375576	421663
LOSSES ON GUARANTEES	0	0	0	0	0	870	1010	1170	1360	1580
OPERATING EXPENSES	210000	295000	385000	418000	468000	515000	566000	623000	685000	754000
DEPRECIATION	7143	7143	10714	14286	14286	14286	24286	17143	17143	17143
TOTAL OTHER EXPENSES	226593	341312	481863	567822	665603	760132	870344	970324	1079079	1194386
NET INCOME	-83881	-17219	211393	590716	798254	873022	930002	974033	1053646	1139052

SOURCES AND USES OF WORKING CAPITAL

SOURCES OF WORKING CAPITAL										
OPERATIONS	-83881	-17219	211393	590716	798254	873022	930002	974033	1053646	1139052
DEPRECIATION	7143	7143	10714	14286	14286	14286	24286	17143	17143	17143
PROVISION FOR LOAN LOSSES	9450	39169	86149	135536	183317	229976	279048	329011	375576	421663
PAID IN CAPITAL	0	0	200000	0	0	0	0	0	0	0
INCREASE IN LONG TERM DEBT	630000	2060000	3547000	2763000	518995	2204447	2382615	2316741	2007332	1881921
TOTAL SOURCES	562712	2089093	4055256	3503538	1514852	3321731	3615951	3636928	3453696	3459779
USES OF WORKING CAPITAL										
NET INCREASE IN LOANS PLACED	630000	1981250	3132000	3298000	3211500	3168050	3361800	3453100	3257600	3258500
DIVIDENDS PAID	0	0	0	59072	79025	87302	95000	97403	105365	113905
FIXED ASSETS PURCHASED	0	0	50000	0	0	0	70000	0	0	0
TOTAL USES	630000	1981250	3182000	3357872	3291325	3255352	3524800	3550503	3362965	3372405
NET CHANGE IN WORKING CAPITAL	[illegible]	107843	873256	145667	-1776473	66379	91151	86425	90731	87374

DEVELOPMENT FINANCE COMPANY OF HAITI
PROJECTED BALANCE SHEET
1983 THROUGH 1992
U.S. DOLLARS
BASE CASE

YEAR	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
CURRENT ASSETS										
CASH	17500	24583	32983	34833	39000	42917	47167	51917	57083	62833
FIXED DEPOSITS	851490	931164	1759824	1830714	0	0	0	0	0	0
INTEREST RECEIVABLE	26410	67049	152738	256577	326004	390425	479451	563501	651649	736147
TOTAL CURRENT ASSETS	895400	1022396	1935646	2122125	365004	433342	526618	615417	708732	798981
LOAN PORTFOLIOS										
PORTFOLIO # 1	315000	1511625	3540443	5973535	8300862	10557081	12885055	15229250	17393982	19523155
PORTFOLIO # 2	252000	838500	1583511	2136364	2648090	3161372	3748954	4374079	4970935	5578474
PORTFOLIO # 3	32000	131000	206810	450056	607438	761472	923488	1088720	1242709	1394934
PORTFOLIO # 4	31000	130125	286186	449682	607314	761472	923488	1088720	1242709	1394934
TOTAL GROSS LOANS	630000	2611250	5616950	9009638	12163705	15241398	18480986	21780769	24852337	27891496
LESS RESERVE FOR LOSSES	9450	48619	128468	237891	363776	503395	660231	835925	1025469	1227790
TOTAL NET LOANS	620550	2562631	5488483	8771746	11799929	14738003	17820755	20944844	23826868	26663706
FIXED ASSETS										
NET OF DEPRECIATION	42857	35714	75000	60714	46428	32142	77856	60713	43570	26427
TOTAL ASSETS	1558807	3621941	7619128	10954585	12211361	15203486	18425229	21620974	24579170	27489113
CURRENT LIABILITIES	12688	33042	71875	112648	132000	133958	136083	138458	141042	143917
LONG TERM DEBT										
USAID LOAN1	630000	2690000	6237000	9000000	9000000	9000000	9000000	9000000	9000000	9000000
USAID LOAN2	0	0	0	0	0	0	0	0	0	0
OTHER LONG TERM DEBT	0	0	0	0	518995	2723442	5106057	7422798	9430130	11312051
TOTAL LONG TERM DEBT	630000	2690000	6237000	9000000	9518995	11723442	14106057	16422798	18430130	20312051
TOTAL LIABILITIES	642688	2723042	6308875	9112648	9650995	11857400	14242141	16561257	18571172	20455968
SHAREHOLDERS EQUITY										
PAID IN CAPITAL	1000000	1000000	1200000	1200000	1200000	1200000	1200000	1200000	1200000	1200000
RETAINED EARNINGS	-83881	-101100	110253	641937	1360366	2146086	2983088	3859717	4807998	5833145
TOTAL EQUITY	916119	898900	1310253	1841937	2560366	3346086	4183088	5059717	6007998	7033145
TOTAL LIABILITIES AND EQUITY	1558806	3621942	7619128	10954585	12211361	15203486	18425228	21620974	24579170	27489113

ANNEX I
Exhibit 2
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DEVELOPMENT FINANCE COMPANY OF HAITI
BASE CASE

YIELD ANALYSIS

YEAR	INTEREST INCOME	INTEREST EXPENSE	NET OPERATING INCOME	OTHER EXPENSE	NET INCOME
1983	13	1.3	11.7	18.6	-6.9
1984	16.2	3.3	12.9	13.6	-.7
1985	16.6	4	12.6	8.7	3.8
1986	16.8	4.2	12.6	6.2	6.4
1987	17	4.3	12.7	5.8	6.9
1988	17.1	5.2	11.9	5.5	6.4
1989	17.1	6.4	10.7	5.2	5.5
1990	16.8	7.1	9.7	4.8	4.8
1991	16.8	7.6	9.1	4.6	4.5
1992	16.7	7.9	8.8	4.5	4.3

RATIO ANALYSIS

YEAR	RETURN ON ASSETS *	RETURN ON EQUITY *	DEBT TO EQUITY	RESERVES TO GROSS LOANS
1983	-6.6	-8.8	.7	1.5
1984	-.7	-1.9	3	1.9
1985	3.8	19.1	4.8	2.2
1986	6.4	37.5	4.9	2.6
1987	6.9	36.3	3.8	3
1988	6.4	29.6	3.5	3.3
1989	5.5	24.7	3.4	3.6
1990	4.9	21.1	3.3	3.8
1991	4.6	19	3.1	4.1
1992	4.4	17.5	2.9	4.4

* NOTE: BASED ON AVERAGE BALANCES

DEVELOPMENT FINANCE COMPANY OF HAITI
PROJECTED INCOME STATEMENT
1983 TO 1992
U.S. DOLLARS
PRIME TO 10%

YEAR	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
OPERATING INCOME										
FEES PROFITS	99482	86948	118563	145744	66372	0	0	0	0	0
FORFEITS # 1	25200	136997	356445	621009	856464	1131477	1406528	1686858	1957514	2215148
FORFEITS # 2	17640	70883	145321	204593	239223	290473	345516	406152	467251	527470
FORFEITS # 3	2080	9780	22980	36843	47587	61601	75823	90549	104914	118694
FORFEITS # 4	1860	8862	20816	33114	42280	54751	67398	80488	93257	105506
FEES GUARANTEES	0	0	0	1740	2020	2340	2720	3160	3520	3880
FEES CLOSINGS	12600	41200	70940	86520	100520	116780	135660	157580	175900	193520
TOTAL OPERATING INCOME	158862	354670	775064	1129563	1354465	1657422	2033646	2424788	2802356	3164218
INTEREST EXPENSE										
ISAID LOANS1	15750	83000	223175	380925	450000	450000	450000	450000	450000	450000
ISAID LOANS2	0	0	0	0	0	0	0	0	0	0
OTHER LONG TERM DEBT	0	0	0	0	47732	249359	571885	910461	1239927	1560228
TOTAL INTEREST EXPENSE	15750	83000	223175	380925	497732	699359	1021885	1360461	1689927	2010228
NET OPERATING INCOME	142712	271670	511889	748638	856734	958063	1011761	1064326	1112429	1153990
OTHER EXPENSES										
PROVISION FOR LOAN LOSSES	9450	39169	86149	135536	183317	229976	279048	329011	375576	421663
LOSSES ON GUARANTEES	0	0	0	0	0	870	1010	1170	1360	1580
OPERATING EXPENSES	210000	295000	305000	418000	468000	515000	566000	623000	685000	754000
DEPRECIATION	7143	7143	10714	14286	14286	14286	24286	17143	17143	17143
TOTAL OTHER EXPENSES	226593	341312	401863	567822	665603	760132	870344	970324	1079079	1194386
NET INCOME	-83881	-69642	30026	180816	191131	197931	141417	94002	33350	-40395

SOURCES AND USES OF WORKING CAPITAL

SOURCES OF WORKING CAPITAL										
OPERATIONS	-83881	-69642	30026	180816	191131	197931	141417	94002	33350	-40395
DEPRECIATION	7143	7143	10714	14286	14286	14286	24286	17143	17143	17143
PROVISION FOR LOAN LOSSES	9450	39169	86149	135536	183317	229976	279048	329011	375576	421663
PAID IN CAPITAL	0	0	400000	400000	100000	0	0	0	0	0
INCREASE IN LONG TERM DEBT	630000	2060000	3547000	2763000	867847	2798101	3066020	3089909	2900578	2923275
TOTAL SOURCES	562712	2036670	4073889	3493638	1356580	3240294	3510771	3530065	3326446	3321685
USES OF WORKING CAPITAL										
NET INCREASE IN LOANS PLACED	630000	1981250	3132000	3298000	3211500	3168050	3361800	3453100	3257600	3258500
DIVIDENDS PAID	0	0	0	18082	19113	19793	14142	9400	3335	0
FIXED ASSETS PURCHASED	0	0	50000	0	0	0	70000	0	0	0
TOTAL USES	630000	1981250	3182000	3316082	3230613	3187843	3445942	3462500	3260935	3258500
NET CHANGE IN WORKING CAPITAL	67288	55420	891889	176756	-1874033	52451	64829	67565	65511	63185

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DEVELOPMENT FINANCE COMPANY OF HAITI
PROJECTED BALANCE SHEET
1983 THROUGH 1992
U.S. DOLLARS
PRIME TO 10%

YEAR	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
CURRENT ASSETS										
CASH	17500	24583	32483	34833	39000	42917	47167	51917	57083	62833
FIXED DEPOSITS	851490	887478	1747262	1876331	0	0	0	0	0	0
INTEREST RECEIVABLE	26410	59112	122511	188260	225744	276237	338941	404131	467059	527370
TOTAL CURRENT ASSETS	895400	971173	1901856	2119424	264744	319154	386108	456048	524143	590203
LOAN PORTFOLIO										
PORTFOLIO # 1	315000	1511625	3580443	5973535	8300862	10557081	12885055	15229250	17395982	19523155
PORTFOLIO # 2	252000	838500	1583511	2136364	2648090	3161372	3748954	4374079	4970935	5578474
PORTFOLIO # 3	32000	131000	286810	450056	607438	761472	923488	1088720	1242709	1394934
PORTFOLIO # 4	31000	130125	286186	449682	607314	761472	923488	1088720	1242709	1394934
TOTAL GROSS LOANS	630000	2611250	5736950	9009638	12163705	15241398	18480986	21780769	24852337	27891496
LESS: RESERVE FOR LOSSES	9450	48619	178468	237891	363776	503395	660231	835925	1025469	1227790
TOTAL NET LOANS	620550	2562631	5660483	8771746	11799929	14738003	17820755	20944844	23826868	26663706
FIXED ASSETS										
NET OF DEPRECIATION	42857	35714	75000	60714	46428	32142	77856	60713	43570	26427
TOTAL ASSETS	1558807	3569518	7585338	10951885	12111101	15089299	18284719	21461605	24394581	27280336
CURRENT LIABILITIES	12488	33042	71875	112648	132000	133958	136083	138458	141042	143917
LONG TERM DEBT										
BONDS LOANS1	630000	2690000	6237000	9000000	9000000	9000000	9000000	9000000	9000000	9000000
BONDS LOANS2	0	0	0	0	0	0	0	0	0	0
OTHER LONG TERM DEBT	0	0	0	0	867847	3665948	6731968	9821877	12722254	15645530
TOTAL LONG TERM DEBT	630000	2690000	6237000	9000000	9867847	12665948	15731968	18821877	21722254	24645530
TOTAL LIABILITIES	642488	2723042	6308875	9112648	9999847	12799906	15868051	18960335	21863296	24789446
SHAREHOLDERS EQUITY										
PAID IN CAPITAL	1000000	1000000	1000000	1000000	1900000	1900000	1900000	1900000	1900000	1900000
RETAINED EARNINGS	-83681	-153523	-125537	39237	211254	389392	516668	601269	631285	590889
TOTAL EQUITY	916319	846477	1274463	1839237	2111254	2289392	2416668	2501269	2531285	2490889
TOTAL LIABILITIES AND EQUITY	1558806	3569518	7585338	10951885	12111101	15089299	18284719	21461605	24394581	27280336

ANNEX I
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DEVELOPMENT FINANCE COMPANY OF HAITI
PRIME TO 10%

YIELD ANALYSIS

YEAR	INTEREST INCOME	INTEREST EXPENSE	NET OPERATING INCOME	OTHER EXPENSE	NET INCOME
1983	13	1.3	11.7	18.6	-6.9
1984	14.2	3.3	10.9	13.7	-2.8
1985	13.4	4.1	9.3	8.8	.5
1986	12.3	4.1	8.1	6.2	2
1987	11.7	4.3	7.4	5.8	1.7
1988	12.1	5.1	7	5.5	1.4
1989	12.1	6.1	6	5.2	.8
1990	12	6.8	5.3	4.8	.5
1991	12	7.2	4.8	4.6	.1
1992	12	7.6	4.4	4.5	-.2

RATIO ANALYSIS

YEAR	RETURN ON ASSETS *	RETURN ON EQUITY *	DEBT TO EQUITY	RESERVES TO GROSS LOANS
1983	-6.6	-8.8	.7	1.5
1984	-2.7	-7.9	3.2	1.9
1985	.5	2.8	4.9	2.2
1986	2	11.6	5	2.6
1987	1.7	9.7	4.7	3
1988	1.3	9	5.6	3.3
1989	.8	6	6.6	3.6
1990	.5	3.8	7.6	3.8
1991	.1	1.3	8.6	4.1
1992	-.2	-1.6	10	4.4

* NOTE: BASED ON AVERAGE BALANCES

DEVELOPMENT FINANCE CORPORATION OF HAITI
PROJECTED INCOME STATEMENT
1983 TO 1992
U.S. DOLLARS
PROFIT MARGIN 25%

YEAR	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
OPERATING INCOME										
FEES DEPOSITS	99082	308959	167160	306741	307512	149807	39084	0	0	0
FOLLOW UP # 1	252000	155263	426615	741654	1048084	1254873	1521575	1775149	2062429	2386007
FOLLOW UP # 2	17640	81708	179722	261966	306461	346517	398524	452728	520407	600379
FOLLOW UP # 3	2000	11410	30843	47717	62146	75391	90343	104546	121144	140029
FOLLOW UP # 4	1860	10473	28719	44359	57686	69876	83723	96687	112060	129585
FEES GUARANTEES	0	0	0	1740	2020	2340	2720	3160	3520	3880
FEES CLOSINGS	12600	41200	65740	64900	75400	87500	101740	118180	137280	159460
TOTAL OPERATING INCOME	158462	407013	888799	1469079	1819308	1986383	2237709	2550450	2956839	3419339
INTEREST EXPENSE										
BONDED LOANS1	15750	83000	216675	374425	450000	450000	450000	450000	450000	450000
BONDED LOANS2	0	0	0	0	0	0	0	0	0	0
OTHER LONG TERM DEBT	0	0	0	0	0	0	57895	221292	442350	699641
TOTAL INTEREST EXPENSE	15750	83000	216675	374425	450000	450000	507895	671292	892350	1149641
NET OPERATING INCOME	142712	324093	672124	1094654	1369308	1536383	1729814	1879157	2064489	2269698
OTHER EXPENSES										
PROVISION FOR LOAN LOSSES	9450	39169	82249	115811	147154	177859	211669	247159	285103	329983
LOSSES ON GUARANTEES	0	0	0	0	0	870	1010	1170	1360	1580
OPERATING EXPENSES	210000	295000	385000	418000	460000	515000	566000	623000	685000	754000
DEPRECIATION	7143	7143	10714	14286	14286	14286	24286	17143	17143	17143
TOTAL OTHER EXPENSES	226593	341312	477963	548097	629440	708015	802965	888472	988606	1102706
NET INCOME	-83881	-17219	194161	546557	739869	828368	926849	990686	1075883	1166992

SOURCES AND USES OF WORKING CAPITAL

SOURCES OF WORKING CAPITAL										
OPERATIONS	-83881	-17219	194161	546557	739869	828368	926849	990686	1075883	1166992
DEPRECIATION	7143	7143	10714	14286	14286	14286	24286	17143	17143	17143
PROVISION FOR LOAN LOSSES	9450	39169	82249	115811	147154	177859	211669	247159	285103	329983
SALE OF CAPITAL	0	0	200000	100000	0	0	0	0	0	0
INCREASE IN LONG TERM DEBT	630000	2060000	3287000	3025000	0	0	723691	1362680	1447974	1815639
TOTAL SOURCES	562712	2089093	3774124	3799654	901368	1020513	1886495	2617667	2826103	3329758
USES OF WORKING CAPITAL										
NET INCREASE IN LOANS PLACED	630000	1981250	2872000	2242000	2115600	2101850	2331200	2464100	2648200	3133100
DIVIDENDS PAID	0	0	0	54656	73987	82837	92685	99069	107588	116699
FIXED ASSETS PURCHASED	0	0	50000	0	0	0	70000	0	0	0
TOTAL USES	630000	1981250	2922000	2296656	2187587	2184687	2493885	2563169	2755788	3249799
NET CHANGE IN WORKING CAPITAL	-67288	107843	852124	1501199	1288278	1164174	607379	54498	70315	79958

ANNEX L

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DEVELOPMENT FINANCE COMPANY OF HAITI
PROJECTED BALANCE SHEET
1983 THROUGH 1992
U.S. DOLLARS
DRAFT DOWN 25%

YEAR	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
CURRENT ASSETS										
CASH	17500	24583	32483	24833	39000	42917	47167	51917	57083	62833
FIXED DEPOSITS	851490	931164	1222675	3175220	1845381	651403	0	0	0	0
INTEREST RECEIVABLE	26410	67849	148133	244847	303218	331064	372951	425075	492807	569890
TOTAL CURRENT ASSETS	895400	1023596	1912949	3474900	2187599	1025383	420118	476992	549890	632723
LOAN PORTFOLIO										
PORTFOLIO # 1	315000	1511625	3411451	5964591	6823341	8139865	9761014	11434790	13205935	15283697
PORTFOLIO # 2	252000	838500	1518503	1861708	2157455	2462769	2850863	3287800	3773347	4367380
PORTFOLIO # 3	32000	131000	272810	384356	487862	509150	701457	817214	944164	1092621
PORTFOLIO # 4	31000	130125	273186	383983	486747	508263	699789	816868	942315	1090391
TOTAL GROSS LOANS	630000	2611250	5476950	7694638	9755405	11780047	14013145	16358673	18865760	21834088
LESS RESERVE FOR LOSSES	9450	48619	124568	214266	306587	407239	520805	649391	793382	958592
TOTAL NET LOANS	620550	2562631	5352385	7480371	9448818	11372809	13492340	15709281	18072378	20875495
FIXED ASSETS										
NET OF DEPRECIATION	42857	35714	75000	60714	46428	32142	77856	60713	43570	26427
TOTAL ASSETS	1558807	3621941	7340272	10995985	11682845	12430334	13990314	16246986	18665838	21534646
CURRENT LIABILITIES	12688	35042	70210	111023	132000	133958	136083	138458	141042	143917
LONG TERM DEBT										
BOARD LOANS	630000	2690000	5977000	9000000	9000000	9000000	9000000	9000000	9000000	9000000
BOARD LOANS	0	0	0	0	0	0	0	0	0	0
OTHER LONG TERM DEBT	0	0	0	0	0	0	723691	2086371	3534345	5349984
TOTAL LONG TERM DEBT	630000	2690000	5977000	9000000	9000000	9000000	9723691	11086371	12534345	14349984
TOTAL LIABILITIES	642688	2725042	6047210	9111023	9132000	9133958	9859774	11224829	12675387	14493901
SHAREHOLDERS EQUITY										
PAID IN CAPITAL	1000000	1000000	1200000	1300000	1300000	1300000	1300000	1300000	1300000	1300000
RETAINED EARNINGS	83881	101166	93061	584962	1250845	1996376	2830540	3722157	4690451	5740744
TOTAL EQUITY	916119	896900	1293061	1884962	2550845	3296376	4130540	5022157	5990451	7040744
TOTAL LIABILITIES AND EQUITY	1558806	3621942	7340272	10995985	11682845	12430334	13990314	16246986	18665838	21534645

DEVELOPMENT FINANCE COMPANY OF HAITI
MARGET DOWN 25%

YIELD ANALYSIS

YEAR	INTEREST INCOME	INTEREST EXPENSE	NET OPERATING INCOME	OTHER EXPENSE	NET INCOME
1983	13	1.3	11.7	18.6	-6.9
1984	16.2	3.3	12.9	13.6	-.7
1985	16.5	4	12.5	8.9	3.6
1986	16.3	4.1	12.1	6.1	6
1987	16.2	4	12.2	5.6	6.6
1988	16.5	3.7	12.8	5.9	6.9
1989	16.9	3.8	13.1	6.1	7
1990	16.8	4.4	12.4	5.9	6.5
1991	16.8	5.1	11.7	5.6	6.1
1992	16.8	5.6	11.2	5.4	5.7

RATIO ANALYSIS

YEAR	RETURN ON ASSETS *	RETURN ON EQUITY *	DEBT TO EQUITY	RESERVES TO GROSS LOANS
1983	-6.6	-8.8	.7	1.5
1984	-.7	-1.9	3	1.9
1985	3.5	17.7	4.7	2.3
1986	6	34.4	4.8	2.8
1987	6.5	33.4	3.6	3.1
1988	6.9	28.3	2.8	3.5
1989	7	25	2.4	3.7
1990	6.6	21.6	2.2	4
1991	6.2	19.5	2.1	4.2
1992	5.8	17.9	2.1	4.4

* NOTE: BASED ON AVERAGE BALANCES

DEVELOPMENT FINANCE COMPANY OF HAITI
PROJECTED INCOME STATEMENT
1983 TO 1992
U.S. DOLLARS
ADMINISTRATIVE EXPENSES OF 1%

YEAR	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
OPERATING INCOME										
FIXED DEPOSITS	97821	102132	166706	227784	116032	0	0	0	0	0
FORWARD # 1	25200	155263	457191	835973	1251167	1602925	1992582	2354573	2732363	3091978
FORWARD # 2	17640	81708	188678	288290	364815	435710	518274	599074	689195	778019
FORWARD # 3	2400	11810	29769	53423	75346	95824	117947	138339	160286	181338
FORWARD # 4	1860	10473	27581	49671	70026	88971	109522	128278	148629	168150
FEES GUARANTEES	0	0	0	1740	2020	2340	2720	3160	3520	3800
FEES CLOSINGS	12600	41200	70960	86520	100520	116780	135660	157580	175900	193520
TOTAL OPERATING INCOME	157201	402265	912865	1543401	1959926	2342550	2876706	3381004	3909892	4416884
INTEREST EXPENSE										
USAID LOANS	15750	83000	223175	380925	450000	450000	450000	450000	450000	450000
USAID LOANS	0	0	0	0	0	0	0	0	0	0
OTHER LONG TERM DEBT	0	0	0	0	40004	258798	634108	1004560	1357848	1679838
TOTAL INTEREST EXPENSE	15750	83000	223175	380925	490004	708798	1084108	1454560	1807848	2129838
NET OPERATING INCOME	141451	319265	689690	1162476	1469922	1633751	1792598	1926445	2102044	2287046
OTHER EXPENSES										
PROVISION FOR LOAN LOSSES	9450	39169	86199	135536	183317	229976	279048	329011	375576	421663
LOSSES ON GUARANTEES	0	0	0	0	0	870	1010	1170	1260	1580
OPERATING EXPENSES	231000	325000	424000	460000	515000	567000	623000	685000	754000	829000
DEPRECIATION	7143	7143	10714	14286	14286	14286	24286	17143	17143	17143
TOTAL OTHER EXPENSES	247593	371312	520963	609822	712603	812132	927344	1032324	1148079	1269386
NET INCOME	-106142	-52046	168727	552654	757319	821619	865254	894121	953966	1017661

SOURCES AND USES OF WORKING CAPITAL

SOURCES OF WORKING CAPITAL										
OPERATIONS	-106142	-52046	168727	552654	757319	821619	865254	894121	953966	1017661
DEPRECIATION	7143	7143	10714	14286	14286	14286	24286	17143	17143	17143
PROVISION FOR LOAN LOSSES	9450	39169	86199	135536	183317	229976	279048	329011	375576	421663
PAID IN CAPITAL	0	0	500000	100000	0	0	0	0	0	0
INCREASE IN LONG TERM DEBT	630000	2066000	3547000	2763000	492356	2250268	2441097	2388870	2097335	1991423
TOTAL SOURCES	540451	2054265	4112699	3565476	1447278	3316149	3609685	3629145	3444020	3447890
USES OF WORKING CAPITAL										
NET INCREASE IN LOANS PLACED	630000	1981250	3152000	3298000	3211500	3168050	3361800	3453100	3257600	3258500
DIVIDENDS PAID	0	0	0	55265	75752	82162	86525	89412	95397	101766
FIXED ASSETS PURCHASED	0	0	500000	0	0	0	70000	0	0	0
TOTAL USES	630000	1981250	3652000	3353265	3287252	3250212	3518325	3542512	3352997	3360266
NET CHANGE IN WORKING CAPITAL	89549	73015	930699	211410	-1839954	65937	91359	86633	91023	87624

ANNEX L
Exhibit 2
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DEVELOPMENT FINANCE COMPANY OF HAITI
PROJECTED BALANCE SHEET
1983 THROUGH 1992
U.S. DOLLARS
ADMINISTRATIVE EXPENSES UP 10%

YEAR	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
CURRENT ASSETS										
CASH	19250	27083	35333	38333	42917	47250	51917	57083	62833	69083
FIXED DEPOSITS	728563	873630	1750139	1894397	0	0	0	0	0	0
INTEREST RECEIVABLE	26200	67044	152144	257233	326654	390425	479451	563501	651649	736147
TOTAL CURRENT ASSETS	874014	967758	1937616	2189964	369571	437675	531368	620584	714482	805231
LOAN PORTFOLIOS										
PORTFOLIO # 1	315000	1511625	2580443	5973535	8300862	10557081	12885055	15229250	17395982	19523155
PORTFOLIO # 2	252000	838500	1583511	2136364	2648090	3161372	3748954	4374079	4970935	5578474
PORTFOLIO # 3	32000	131000	286810	450056	607438	761472	923488	1088720	1242709	1394934
PORTFOLIO # 4	31000	130125	286186	449682	607314	761472	923488	1088720	1242709	1394934
TOTAL GROSS LOANS	630000	2611250	5736950	9009638	12163705	15241398	18480986	21780769	24852337	27891496
LESS RESERVE FOR LOSSES	9450	48619	178468	237891	363776	503395	660231	835925	1025469	1227790
TOTAL NET LOANS	620550	2562631	5608483	8771746	11799929	14738003	17820755	20944844	23826868	26663706
FIXED ASSETS										
NET OF DEPRECIATION	42857	35714	75000	60714	46428	32142	77856	60713	43570	26427
TOTAL ASSETS	1537421	3566103	7621099	11022424	12215928	15207820	18429979	21626141	24584920	27495363
CURRENT LIABILITIES	13563	34292	73460	114398	133958	136125	138458	141042	143917	147042
LONG TERM DEBT										
USAID LOANS	630000	2690000	6237000	9000000	9000000	9000000	9000000	9000000	9000000	9000000
USAID LOANS	0	0	0	0	0	0	0	0	0	0
OTHER LONG TERM DEBT	0	0	0	0	492356	2742624	5183720	7572591	9669926	11661350
TOTAL LONG TERM DEBT	630000	2690000	6237000	9000000	9492356	11742624	14183720	16572591	18669926	20661350
TOTAL LIABILITIES	643563	2724292	6310460	9114398	9626314	11878749	14322179	16713632	18813843	20808391
SHAREHOLDERS EQUITY										
PAID IN CAPITAL	1000000	1000000	1300000	1400000	1400000	1400000	1400000	1400000	1400000	1400000
RETAINED EARNINGS	-106142	-158188	10638	508027	1189614	1929071	2707799	3512508	4371077	5286972
TOTAL EQUITY	893858	841812	1310638	1908027	2589614	3329071	4107799	4912508	5771077	6686972
TOTAL LIABILITIES AND EQUITY	1537420	3566103	7621099	11022425	12215928	15207820	18429978	21626140	24584920	27495363

ANNEX L

DEVELOPMENT FINANCE COMPANY OF HAITI
ADMINISTRATIVE EXPENSES UP 10%

YIELD ANALYSIS

YEAR	INTEREST INCOME	INTEREST EXPENSE	NET OPERATING INCOME	OTHER EXPENSE	NET INCOME
1983	13.1	1.3	11.7	20.6	-8.8
1984	16.3	3.4	12.9	15	-2.1
1985	16.6	4.1	12.6	9.5	3.1
1986	16.8	4.1	12.6	6.6	6
1987	17	4.2	12.7	6.2	6.6
1988	17.1	5.2	11.9	5.9	6
1989	17.1	6.4	10.6	5.5	5.1
1990	16.8	7.2	9.6	5.1	4.4
1991	16.8	7.8	9	4.9	4.1
1992	16.7	8.1	8.7	4.8	3.9

RATIO ANALYSIS

YEAR	RETURN ON ASSETS *	RETURN ON EQUITY *	DEBT TO EQUITY	RESERVES TO GROSS LOANS
1983	-8.4	-11.2	.7	1.5
1984	-2	-6	3.2	1.9
1985	3	15.7	4.8	2.2
1986	5.9	34.3	4.6	2.6
1987	6.5	33.7	3.7	3
1988	6	27.8	3.6	3.3
1989	5.1	23.3	3.5	3.6
1990	4.5	19.8	3.4	3.8
1991	4.1	17.9	3.3	4.1
1992	3.9	16.3	3.1	4.4

* NOTE: BASED ON AVERAGE BALANCES

DEVELOPMENT FINANCE COMPANY OF HAITI
PROJECTED INCOME STATEMENT
1983 TO 1992
U.S. DOLLARS
USAID LIMIT AT $400000

YEAR	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
OPERATING INCOME										
FIXED DEPOSITS	99082	106959	57034	0	0	0	0	0	0	0
PORTFOLIO # 1	25200	155262	439191	835973	1231167	1602925	1992582	2354573	2732363	3091978
PORTFOLIO # 2	17640	81788	184678	298290	364815	435710	518274	599074	689195	778019
PORTFOLIO # 3	2080	11410	29769	53423	75346	95824	117947	138339	160286	181338
PORTFOLIO # 4	1860	10473	27581	49671	70026	88971	109522	128278	148629	168150
FEES GRANTEES	0	0	0	1740	2020	2340	2720	3160	3520	3880
FEES-CLOSINGS	12600	41200	70940	86520	100520	116780	135660	157580	175900	193520
TOTAL OPERATING INCOME	158462	407093	807193	1315617	1843894	2342550	2876706	3381004	3909892	4416884
INTEREST EXPENSE										
USAID LOAN#1	15750	83000	167250	200000	200000	200000	200000	200000	200000	200000
USAID LOAN#2	0	0	0	0	0	0	0	0	0	0
OTHER LONG TERM DEBT	0	0	64876	350274	772997	1198082	1673523	2137818	2607348	3054111
TOTAL INTEREST EXPENSE	15750	83000	232126	550274	972997	1398082	1873523	2337818	2807348	3254111
NET OPERATING INCOME	142712	324093	577067	765343	870897	944468	1003183	1043186	1102544	1162774
OTHER EXPENSES										
PROVISION FOR LOAN LOSSES	9450	39169	86149	135536	183317	229976	279048	329011	375576	421663
LOSSES ON GUARANTEES	0	0	0	0	0	870	1010	1170	1360	1580
OPERATING EXPENSES	210000	295000	385000	418000	468000	515000	566000	623000	685000	754000
DEPRECIATION	7143	7143	10714	14286	14286	14286	24286	17143	17143	17143
TOTAL OTHER EXPENSES	226593	341312	481863	567822	665603	760132	870344	970324	1079079	1194386
NET INCOME	-83881	-17219	95204	197521	205294	184335	132839	72862	23466	-31612

SOURCES AND USES OF WORKING CAPITAL

SOURCES OF WORKING CAPITAL										
OPERATING	-83881	-17219	95204	197521	205294	184335	132839	72862	23466	-31612
DEPRECIATION	7143	7143	10714	14286	14286	14286	24286	17143	17143	17143
PROVISION FOR LOAN LOSSES	9450	39169	86149	135536	183317	229976	279048	329011	375576	421663
PAID IN CAPITAL	0	0	0	400000	300000	0	0	0	100000	100000
INCREASE IN LONG TERM DEBT	630000	2060000	2108473	2648801	2617762	2842953	3100062	3127795	2834494	2838680
TOTAL SOURCES	562712	2089093	2300539	3396144	3322159	3271551	3536235	3546811	3350678	3345874
USES OF WORKING CAPITAL										
NET INCREASE IN LOANS PLACED	630000	1901250	3132000	3298000	3211500	3168050	3361800	3453100	3257600	3258500
DIVIDENDS PAID	0	0	0	19752	20529	18434	13284	7286	2347	0
FIXED ASSETS PURCHASED	0	0	50000	0	0	0	70000	0	0	0
TOTAL USES	630000	1781250	3182000	3318552	3232029	3186484	3445084	3460386	3259947	3258500
NET CHANGE IN WORKING CAPITAL	67288	307843	881461	77592	90129	85067	91151	86425	90732	87374

ANNEX I
Exhibit 2
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DEVELOPMENT FINANCE COMPANY OF HAITI
PROJECTED BALANCE SHEET
1983 THROUGH 1992
U.S. DOLLARS
USAID LIMIT AT $4000000

YEAR	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
CURRENT ASSETS										
CASH	17500	24583	32083	34833	39000	42917	47167	51917	57083	62833
FIXED DEPOSITS	851490	931164	0	0	0	0	0	0	0	0
INTEREST RECEIVABLE	26410	67849	134065	219270	307316	390425	479451	563501	651649	736147
TOTAL CURRENT ASSETS	895400	1023596	166949	254103	346316	433342	526618	615417	708732	798981
LOAN PORTFOLIOS										
PORTFOLIO # 1	315000	1511625	3580443	5973535	8300862	10557081	12885055	15229250	17395982	19523155
PORTFOLIO # 2	252000	838500	1583511	2136364	2648090	3161372	3748954	4374079	4970935	5578474
PORTFOLIO # 3	32000	131000	286810	450056	607438	761472	923488	1088720	1242709	1394934
PORTFOLIO # 4	31000	130125	286186	449682	607314	761472	923488	1088720	1242709	1394934
TOTAL GROSS LOANS	630000	2611250	5736950	9009638	12163705	15241398	18480986	21780769	24852337	27891496
LESS RESERVE FOR LOSSES	9450	48619	128468	237891	363776	503395	660231	835925	1025469	1227790
TOTAL NET LOANS	620550	2562631	5608483	8771746	11799929	14738003	17820755	20944844	23826868	26663706
FIXED ASSETS										
NET OF DEPRECIATION	42857	35714	75000	60714	46428	32142	77856	60713	43570	26427
TOTAL ASSETS	1558807	3621941	5850431	9086563	12192673	15203486	18425229	21620974	24579170	27489113
CURRENT LIABILITIES	12688	33042	57854	67417	69500	71458	73583	75958	78542	81417
LONG TERM DEBT										
USAID LOAN#1	630000	2690000	4000000	4000000	4000000	4000000	4000000	4000000	4000000	4000000
USAID LOAN#2	0	0	0	0	0	0	0	0	0	0
OTHER LONG TERM DEBT	0	0	798473	3447273	6066535	8909488	12009551	15137345	17971839	20810519
TOTAL LONG TERM DEBT	630000	2690000	4798473	7447273	10066535	12909488	16009551	19137345	21971839	24810519
TOTAL LIABILITIES	642688	2723042	4856327	7514690	10136035	12980947	16083134	19213304	22050381	24891936
SHAREHOLDERS EQUITY										
PAID IN CAPITAL	1000000	1000000	1000000	1400000	1700000	1700000	1700000	1700000	1800000	1900000
RETAINED EARNINGS	-83881	-101100	-5876	171873	356637	522539	642094	707670	728789	697177
TOTAL EQUITY	916119	898900	994104	1571873	2056637	2222539	2342094	2407670	2528789	2597177
TOTAL LIABILITIES AND EQUITY	1558806	3621942	5850431	9086563	12192673	15203486	18425228	21620974	24579170	27489113

DEVELOPMENT FINANCE COMPANY OF HAITI
USAID LIMIT AT $4000000

YIELD ANALYSIS

YEAR	INTEREST INCOME	INTEREST EXPENSE	NET OPERATING INCOME	OTHER EXPENSE	NET INCOME
1983	13	1.3	11.7	18.6	-6.9
1984	16.2	3.3	12.9	13.6	-.7
1985	17.4	5	12.4	10.4	2.1
1986	17.8	7.5	10.4	7.7	2.7
1987	17.4	9.2	8.2	6.3	1.9
1988	17.1	10.2	6.9	5.5	1.3
1989	17.1	11.1	5.9	5.2	.8
1990	16.8	11.6	5.2	4.8	.4
1991	16.8	12	4.7	4.6	.1
1992	16.7	12.3	4.4	4.5	-.1

RATIO ANALYSIS

YEAR	RETURN ON ASSETS #	RETURN ON EQUITY #	DEBT TO EQUITY	RESERVES TO GROSS LOANS
1983	-6.6	-8.8	.7	1.5
1984	-.7	-1.9	3	1.9
1985	2	10.1	4.9	2.2
1986	2.6	15.4	4.8	2.6
1987	1.9	11.3	4.9	3
1988	1.3	8.6	5.8	3.3
1989	.8	5.8	6.9	3.6
1990	.4	3.1	8	3.8
1991	.1	1	8.7	4.1
1992	-.1	-1.2	9.6	4.4

NOTE: BASED ON AVERAGE BALANCES

DEVELOPMENT FINANCE COMPANY OF HAITI
PROJECTED INCOME STATEMENT
1983 TO 1992
U.S. DOLLARS
1% PROVISION FOR LOAN LOSSES

YEAR	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
OPERATING INCOME										
FIXED DEPOSITS	99082	106959	164281	223624	111904	0	0	0	0	0
PORTFOLIO # 1	25200	155263	439504	836715	1233547	1608198	2002086	2369333	2753743	3121225
PORTFOLIO # 2	17640	81788	184723	288534	365507	437133	520741	602826	694586	785378
PORTFOLIO # 3	2080	11410	29776	53470	75491	96138	118510	139206	161540	183053
PORTFOLIO # 4	1860	10473	27508	49715	70161	89263	110045	129082	149792	169740
FEES-GUARANTEES	0	0	0	1740	2020	2340	2720	3160	3520	3880
FEES CLOSINGS	12600	41200	70940	86520	100520	116780	135660	157580	175900	193520
TOTAL OPERATING INCOME	158462	407093	916611	1540316	1959151	2349853	2889761	3401188	3939080	4456797
INTEREST EXPENSE -										
USAID LOAN#1	15750	83000	223175	380925	450000	450000	450000	450000	450000	450000
USAID LOAN#2	0	0	0	0	0	0	0	0	0	0
OTHER LONG TERM DEBT	0	0	0	0	42815	260919	628138	988017	1327178	1630688
TOTAL INTEREST EXPENSE	15750	83000	223175	380925	492815	710919	1078138	1438017	1777178	2080688
NET OPERATING INCOME	142712	324093	693436	1159391	1466336	1638934	1811623	1963170	2161902	2376110
OTHER EXPENSES										
PROVISION FOR LOAN LOSSES	6300	26113	57433	90379	122319	153617	186633	220348	251900	283241
LOSSES ON GUARANTEES	0	0	0	0	0	870	1010	1170	1360	1580
OPERATING EXPENSES	210000	295000	385000	418000	468000	515000	566000	623000	685000	754000
DEPRECIATION	7143	7143	10714	14286	14286	14286	24286	17143	17143	17143
TOTAL OTHER EXPENSES	223443	328256	453147	522665	604605	683773	777929	861661	955403	1055964
NET INCOME	-80731	-4163	240290	636727	861731	955161	1033695	1101509	1206499	1320146

SOURCES AND USES OF WORKING CAPITAL

SOURCES OF WORKING CAPITAL										
OPERATIONS	-80731	-4163	240290	636727	861731	955161	1033695	1101509	1206499	1320146
DEPRECIATION	7143	7143	10714	14286	14286	14286	24286	17143	17143	17143
PROVISION FOR LOAN LOSSES	6300	26113	57433	90379	122319	153617	186633	220348	251900	283241
PAID IN CAPITAL	0	0	200000	0	0	0	0	0	0	0
INCREASE IN LONG TERM DEBT	630000	2060000	3547000	2763000	526952	2207377	2382666	2311863	1994940	1859146
TOTAL SOURCES	562712	2089093	4055436	3504391	1525288	3330641	3627279	3650864	3470482	3479676
USES OF WORKING CAPITAL										
NET INCREASE IN LOANS PLACED	630000	1981250	3132000	3298800	3211500	3168050	3361800	3453100	3257600	3258500
DIVIDENDS PAID	0	0	0	63673	86173	95516	103369	110151	120650	132015
FIXED ASSETS PURCHASED	0	0	50000	0	0	0	70000	0	0	0
TOTAL USES	630000	1981250	3182000	3362473	3297673	3263566	3535169	3563251	3378250	3390515
NET CHANGE IN WORKING CAPITAL	-67288	107843	873436	141919	-1772385	67075	92110	87613	92232	89161

ANNEX L
Exhibit 2
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DEVELOPMENT FINANCE COMPANY OF HAITI
PROJECTED BALANCE SHEET
1983 THROUGH 1992
U.S. DOLLARS
1% PROVISION FOR LOAN LOSSES

YEAR	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
CURRENT ASSETS										
CASH	17500	24583	32083	34833	39000	42917	47167	51917	57083	62833
FIXED DEPOSITS	851490	931164	1750775	1827005	0	0	0	0	0	0
INTEREST RECEIVABLE	26410	67849	152769	256719	326525	391642	481627	566865	656513	742800
TOTAL CURRENT ASSETS	895400	1023596	1935627	2118557	365525	434559	528794	618781	713597	805633
LOAN PORTFOLIOS										
PORTFOLIO # 1	315000	1511625	3581754	5780698	8321300	10598678	12955277	15335267	17545241	19723120
PORTFOLIO # 2	252000	838500	1584091	2138926	2654610	3173829	3769385	4404528	5013586	5635611
PORTFOLIO # 3	32000	131000	286915	450576	608934	764472	928521	1096299	1253372	1409221
PORTFOLIO # 4	31000	130125	286290	450222	608809	764472	928521	1096299	1253372	1409221
TOTAL GROSS LOANS	630000	2611250	5739050	9020442	12193653	15301451	18581705	21932393	25065572	28177173
LESS RESERVE FOR LOSSES	6300	32413	85645	158615	242646	336011	441097	559034	686512	822854
TOTAL NET LOANS	623700	2578838	5653405	8861826	11951007	14965440	18140608	21373359	24379060	27354319
FIXED ASSETS										
NET OF DEPRECIATION	42857	35714	75000	60714	46428	32142	77856	60713	43570	26427
TOTAL ASSETS	1561957	3638148	7664232	11041098	12362960	15432141	18747257	22052854	25136226	28186379
CURRENT LIABILITIES	12688	33042	71835	112648	132000	133958	136083	138458	141042	143917
LONG TERM DEBT										
USAID LOAN#1	630000	2690000	6237000	9000000	9000000	9000000	9000000	9000000	9000000	9000000
USAID LOAN#2	0	0	0	0	0	0	0	0	0	0
OTHER LONG TERM DEBT	0	0	0	0	526952	2734529	5117195	7429059	9423999	11283145
TOTAL LONG TERM DEBT	630000	2690000	6237000	9000000	9526952	11734529	14117195	16429059	18423999	20283145
TOTAL LIABILITIES	642688	2723042	6308835	9112648	9658952	11868488	14253279	16567517	18565041	20427062
SHAREHOLDERS EQUITY										
PAID IN CAPITAL	1000000	1000000	1200000	1200000	1200000	1200000	1200000	1200000	1200000	1200000
RETAINED EARNINGS	-80731	-84894	155396	728450	1504008	2363653	3293978	4285337	5371185	6559317
TOTAL EQUITY	919269	915106	1355396	1928450	2704008	3563653	4493978	5485337	6571185	7759317
TOTAL LIABILITIES AND EQUITY	1561956	3638148	7664232	11041098	12362960	15432141	18747257	22052854	25136226	28186378

DEVELOPMENT FINANCE COMPANY OF HAITI
1% PROVISION FOR LOAN LOSSES

YIELD ANALYSIS

YEAR	INTEREST INCOME	INTEREST EXPENSE	NET OPERATING INCOME	OTHER EXPENSE	NET INCOME
1983	13	1.3	11.7	18.4	-6.6
1984	16.2	3.3	12.9	13.1	-.2
1985	16.6	4	12.6	8.2	4.4
1986	16.8	4.2	12.6	5.7	6.9
1987	17	4.3	12.7	5.2	7.5
1988	17.1	5.2	11.9	5	6.9
1989	17.1	6.4	10.7	4.6	6.1
1990	16.8	7.1	9.7	4.3	5.4
1991	16.8	7.6	9.2	4.1	5.1
1992	16.7	7.8	8.9	4	5

RATIO ANALYSIS

YEAR	RETURN ON ASSETS #	RETURN ON EQUITY #	DEBT TO EQUITY	RESERVES TO GROSS LOANS
1983	-6.3	-8.4	.7	1
1984	-.2	-.5	3	1.2
1985	4.3	21.2	4.7	1.5
1986	6.8	38.8	4.7	1.8
1987	7.4	37.2	3.6	2
1988	6.9	30.5	3.3	2.2
1989	6	25.7	3.2	2.4
1990	5.4	22.1	3	2.5
1991	5.1	20	2.8	2.7
1992	5	18.4	2.6	2.9

NOTE: BASED ON AVERAGE BALANCES

DEVELOPMENT FINANCE COMPANY OF HAITI
PROJECTED INCOME STATEMENT
1983 TO 1992
U.S. DOLLARS
2.5% PROVISION FOR LOAN LOSSES

YEAR	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
OPERATING INCOME										
FIXED DEPOSITS	99082	106959	170708	244716	126148	0	0	0	0	0
PORTFOLIO # 1	25200	155263	438965	834490	1226406	1592382	1973590	2325118	2689775	3033842
PORTFOLIO # 2	17640	81788	184590	287803	363430	432864	513346	591585	678455	763390
PORTFOLIO # 3	2080	11410	29754	53329	75056	95194	116824	136609	157788	177928
PORTFOLIO # 4	1860	10473	27567	49584	69756	88387	108479	126674	146312	164988
FEES-GUARANTEES	0	0	0	1740	2020	2340	2720	3160	3520	3880
FEES CLOSINGS	12600	41200	70940	86520	100520	116780	135660	157580	175900	193520
TOTAL OPERATING INCOME	158462	407093	922523	1558183	1963336	2327947	2850619	3340726	3851750	4337549
INTEREST EXPENSE										
USAID LOAN#1	15750	83000	223175	380925	450000	450000	450000	450000	450000	450000
USAID LOAN#2	0	0	0	0	0	0	0	0	0	0
OTHER LONG TERM DEBT	0	0	0	0	20298	212494	571972	926208	1260689	1562410
TOTAL INTEREST EXPENSE	15750	83000	223175	380925	470298	662494	1021972	1376208	1710689	2012410
NET OPERATING INCOME	142712	324093	699348	1177258	1493039	1665453	1828647	1964518	2141062	2325139
OTHER EXPENSES										
PROVISION FOR LOAN LOSSES	15750	65281	143581	225789	304988	381796	462078	543323	618399	692161
LOSSES ON GUARANTEES	0	0	0	0	0	870	1010	1170	1360	1580
OPERATING EXPENSES	210000	295000	385000	418000	468000	515000	566000	623000	685000	754000
DEPRECIATION	7143	7143	10714	14286	14286	14286	24286	17143	17143	17143
TOTAL OTHER EXPENSES	232893	367424	539295	658075	787274	911952	1053374	1184636	1321902	1466884
NET INCOME	-90181	-43331	160053	519184	705764	753500	775273	779882	819159	860256

SOURCES AND USES OF WORKING CAPITAL

SOURCES OF WORKING CAPITAL										
OPERATIONS	-90181	-43331	160053	519184	705764	753500	775273	779882	819159	860256
DEPRECIATION	7143	7143	10714	14286	14286	14286	24286	17143	17143	17143
PROVISION FOR LOAN LOSSES	15750	65281	143581	225789	304988	381796	462078	543323	618399	692161
PAID IN CAPITAL	0	0	300000	100000	0	0	0	0	0	0
INCREASE IN LONG TERM DEBT	630000	2060000	3547000	2763000	249817	2156544	2336927	2274800	1972368	1858808
TOTAL SOURCES	562712	2089093	4161348	3622258	1274856	3306127	3598564	3615148	3427270	3428367
USES OF WORKING CAPITAL										
NET INCREASE IN LOANS PLACED	630000	1981250	3132000	3298800	3211500	3168050	3361800	3453100	3257600	3258500
DIVIDENDS PAID	0	0	0	51918	70576	75350	77527	77988	81916	86026
FIXED ASSETS PURCHASED	0	0	50000	0	0	0	70000	0	0	0
TOTAL USES	630000	1981250	3182000	3350718	3282076	3243400	3509327	3531088	3339516	3344526
NET CHANGE IN WORKING CAPITAL	67288	107843	979348	271540	-2007221	62727	89237	84060	87754	83841

ANNEX L
Exhibit 2
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DEVELOPMENT FINANCE COMPANY OF HAITI
PROJECTED BALANCE SHEET
1983 THROUGH 1992
U.S. DOLLARS
2.5% PROVISION FOR LOAN LOSSES

YEAR	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
CURRENT ASSETS										
CASH	17500	24583	32083	34833	39000	42917	47167	51917	57083	62833
FIXED DEPOSITS	851490	931164	1855901	2059560	0	0	0	0	0	0
INTEREST RECEIVABLE	26410	67049	153754	259677	327223	387991	475103	556788	641958	722925
TOTAL CURRENT ASSETS	895400	1023596	2041738	2354091	366223	430908	522270	608704	699042	785758
LOAN PORTFOLIOS										
PORTFOLIO # 1	315000	1511625	3577822	5959208	8259987	10473917	12744792	15017815	17098905	19126072
PORTFOLIO # 2	252000	838500	1582352	2131241	2635051	3136468	3708144	4313351	4886045	5465013
PORTFOLIO # 3	32000	131000	286600	448977	604447	755473	913436	1073605	1221487	1366562
PORTFOLIO # 4	31000	130125	285976	448604	604324	755473	913436	1073605	1221487	1366562
TOTAL GROSS LOANS	630000	2611250	5732750	8988029	12103808	15121333	18279807	21478376	24427924	27324209
LESS RESERVE FOR LOSSES	15750	81031	214113	396380	605648	836918	1095671	1384463	1694810	2024756
TOTAL NET LOANS	614250	2530219	5518638	8591649	11498161	14284414	17184136	20093913	22733114	25299453
FIXED ASSETS										
NET OF DEPRECIATION	42857	35714	75000	60714	46428	32142	77856	60713	43570	26427
TOTAL ASSETS	1552507	3589529	7635376	11006453	11910811	14747464	17784262	20763330	23475725	26111638
CURRENT LIABILITIES	12688	33042	71835	112648	132000	133958	136083	138458	141042	143917
LONG TERM DEBT										
USAID LOAN#1	630000	2690000	6237000	9000000	9000000	9000000	9000000	9000000	9000000	9000000
USAID LOAN#2	0	0	0	0	0	0	0	0	0	0
OTHER LONG TERM DEBT	0	0	0	0	249817	2406361	4743289	7018088	8990657	10849464
TOTAL LONG TERM DEBT	630000	2690000	6237000	9000000	9249817	11406361	13743289	16018088	17990657	19849464
TOTAL LIABILITIES	642688	2723042	6308835	9112648	9381817	11540320	13879372	16156547	18131698	19993381
STOCKHOLDERS EQUITY										
PAID IN CAPITAL	1000000	1000000	1300000	1400000	1400000	1400000	1400000	1400000	1400000	1400000
RETAINED EARNINGS	-90181	-133512	26541	493806	1128794	1807144	2504889	3206783	3944027	4718257
TOTAL EQUITY	909819	866488	1326541	1893806	2528794	3207144	3904889	4606783	5344027	6118257
TOTAL LIABILITIES AND EQUITY	1552506	3589529	7635376	11006454	11910811	14747464	17784261	20763330	23475725	26111638

ANNEX L

DEVELOPMENT FINANCE COMPANY OF HAITI
2.5% PROVISION FOR LOAN LOSSES

YIELD ANALYSIS

YEAR	INTEREST INCOME	INTEREST EXPENSE	NET OPERATING INCOME	OTHER EXPENSE	NET INCOME
1983	13	1.3	11.7	19.2	-7.4
1984	16.2	3.3	12.9	14.6	-1.7
1985	16.6	4	12.6	9.7	2.9
1986	16.7	4.1	12.6	7.1	5.6
1987	17	4.1	12.9	6.8	6.1
1988	17.1	4.9	12.2	6.7	5.5
1989	17.1	6.1	10.9	6.3	4.6
1990	16.8	6.9	9.9	6	3.9
1991	16.8	7.5	9.3	5.8	3.6
1992	16.8	7.8	9	5.7	3.3

RATIO ANALYSIS

YEAR	RETURN ON ASSETS #	RETURN ON EQUITY #	DEBT TO EQUITY	RESERVES TO GROSS LOANS
1983	-7.1	-9.4	.7	2.5
1984	-1.7	-4.9	3.1	3.1
1985	2.9	14.6	4.8	3.7
1986	5.6	32.2	4.8	4.4
1987	6.2	31.9	3.7	5
1988	5.7	26.3	3.6	5.5
1989	4.8	21.8	3.6	6
1990	4	18.3	3.5	6.4
1991	3.7	16.5	3.4	6.9
1992	3.5	15	3.3	7.4

NOTE: BASED ON AVERAGE BALANCES

DEVELOPMENT FINANCE CORPORATION OF HAITI
PROJECTED INCOME STATEMENT
1983 TO 1992
U.S. DOLLARS
NO CLOSING FEE

YEAR	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
OPERATING INCOME										
FIXED DEPOSITS	98477	103262	159873	222684	112271	0	0	0	0	0
PORTFOLIO # 1	25200	155263	439191	835973	1231167	1602925	1992582	2354573	2732363	3091978
PORTFOLIO # 2	17640	81788	184678	288290	364815	435710	518274	599074	689195	778019
PORTFOLIO # 3	2080	11410	29769	53423	75246	95824	117947	138339	160296	181338
PORTFOLIO # 4	1860	10473	27581	49671	70926	88971	109522	128278	148629	168150
FEES GUARANTEES	0	0	0	1740	2020	2340	2720	3160	3520	3880
FEES CLOSINGS	0	0	0	0	0	0	0	0	0	0
TOTAL OPERATING INCOME	145257	362196	841112	1451782	1855645	2225770	2741046	3223424	3733992	4223364
INTEREST EXPENSE										
USAID LOAN#1	15750	83000	223175	380925	450000	450000	450000	450000	450000	450000
USAID LOAN#2	0	0	0	0	0	0	0	0	0	0
OTHER LONG TERM DEBT	0	0	0	0	49703	284207	674102	1062662	1439650	1790761
TOTAL INTEREST EXPENSE	15750	83000	223175	380925	499703	734207	1124102	1512662	1889650	2240761
NET OPERATING INCOME	129507	279196	617937	1070857	1355942	1491562	1616944	1710762	1844343	1982603
OTHER EXPENSES										
PROVISION FOR LOAN LOSSES	9450	39169	86149	135536	183317	229976	279048	329011	375576	421663
LOSSES ON GUARANTEES	0	0	0	0	0	870	1010	1170	1360	1580
OPERATING EXPENSES	210000	295000	385000	418000	468000	515000	566000	623000	685000	754000
DEPRECIATION	7143	7143	10714	14286	14286	14286	24286	17143	17143	17143
TOTAL OTHER EXPENSES	226593	341312	481863	567822	665603	760132	870344	970324	1079079	1194386
NET INCOME	-97086	-62116	136074	503034	690339	731430	746600	740438	765264	788218

SOURCES AND USES OF WORKING CAPITAL

SOURCES OF WORKING CAPITAL										
OPERATIONS	-97086	-62116	136074	503034	690339	731430	746600	740438	765264	788218
DEPRECIATION	7143	7143	10714	14286	14286	14286	24286	17143	17143	17143
PROVISION FOR LOAN LOSSES	9450	39169	86149	135536	183317	229976	279048	329011	375576	421663
PAID IN CAPITAL	0	0	300000	100000	0	0	0	0	0	0
INCREASE IN LONG TERM DEBT	630000	2060000	3547000	2763000	611723	2329147	2544530	2523323	2263822	2194736
TOTAL SOURCES	549507	2044196	4079937	3515857	1499665	3304839	3594464	3609915	3421804	3421759
USES OF WORKING CAPITAL										
NET INCREASE IN LOANS PLACED	630000	1981250	3132000	3298800	3211500	3168050	3361800	3453100	3257600	3258500
DIVIDENDS PAID	0	0	0	50303	69034	73143	74660	74044	76526	78822
FIXED ASSETS PURCHASED	0	0	50000	0	0	0	70000	0	0	0
TOTAL USES	630000	1981250	3182000	3349103	3280534	3241193	3506460	3527144	3334126	3337322
NET CHANGE IN WORKING CAPITAL	-80493	62946	897937	166753	1780068	63646	88004	82771	87678	84437

DEVELOPMENT FINANCE COMPANY OF HAITI
PROJECTED BALANCE SHEET
1983 THROUGH 1992
U.S. DOLLARS
NO CLOSING FEE

YEAR	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
CURRENT ASSETS										
CASH	17500	24583	32083	34833	39000	42917	47167	51917	57083	62833
FIXED DEPOSITS	840485	880544	1729956	1832993	0	0	0	0	0	0
INTEREST RECEIVABLE	24209	60366	140185	241964	309274	370962	456841	537237	622332	70389[illegible]
TOTAL CURRENT ASSETS	882195	965494	1902225	2109790	348274	413878	504008	589154	679415	766727
LOAN PORTFOLIOS										
PORTFOLIO # 1	315000	1511625	3580443	5973535	8300862	10557081	12885055	15229250	17395982	19523155
PORTFOLIO # 2	252000	838500	1583511	2136364	2648090	3161372	3748954	4374079	4970935	5578474
PORTFOLIO # 3	32000	131000	286810	450056	607438	761472	923488	1088720	1242709	1394934
PORTFOLIO # 4	31000	130125	286186	449682	607314	761472	923488	1088720	1242709	1394934
TOTAL GROSS LOANS	630000	2611250	5736950	9009638	12163705	15241398	18480986	21780769	24852337	27891496
LESS RESERVE FOR LOSSES	9450	48619	128468	237891	363776	503395	660231	835925	1025469	1227790
TOTAL NET LOANS	620550	2562631	5608483	8771746	11799929	14738003	17820755	20944844	23826868	26663706
FIXED ASSETS										
NET OF DEPRECIATION	42857	35714	75000	60714	46428	32142	77856	60713	43570	26427
TOTAL ASSETS	1545602	3563839	7585707	10942250	12194631	15184023	18402619	21594711	24549853	27456860
CURRENT LIABILITIES	12688	33042	71835	112648	132000	133958	136083	138458	141042	143917
LONG TERM DEBT										
USAID LOAN#1	630000	2690000	6237000	9000000	9000000	9000000	9000000	9000000	9000000	9000000
USAID LOAN#2	0	0	0	0	0	0	0	0	0	0
OTHER LONG TERM DEBT	0	0	0	0	611723	2940870	5485400	8008723	10272545	12467281
TOTAL LONG TERM DEBT	630000	2690000	6237000	9000000	9611723	11940870	14485400	17008723	19272545	21467281
TOTAL LIABILITIES	642688	2723042	6308835	9112648	9743723	12074828	14621483	17147181	19413587	21611197
STOCKHOLDERS EQUITY										
PAID IN CAPITAL	1000000	1000000	1300000	1400000	1400000	1400000	1400000	1400000	1400000	1400000
RETAINED EARNINGS	-97086	-159203	-23128	429603	1050908	1709195	2381135	3047529	3736267	4445662
TOTAL EQUITY	902914	840797	1276872	1829603	2450908	3109195	3781135	4447529	5136267	5845662
TOTAL LIABILITIES AND EQUITY	1545601	3563839	7585707	10942250	12194631	15184023	18402618	21594710	24549853	27456860

DEVELOPMENT FINANCE COMPANY OF HAITI
NO CLOSING FEE

YIELD ANALYSIS

YEAR	INTEREST INCOME	INTEREST EXPENSE	NET OPERATING INCOME	OTHER EXPENSE	NET INCOME
1983	12	1.3	10.7	18.7	-8
1984	14.6	3.3	11.3	13.8	-2.5
1985	15.4	4.1	11.3	8.8	2.5
1986	15.9	4.2	11.7	6.2	5.5
1987	16.1	4.3	11.8	5.8	6
1988	16.2	5.4	10.9	5.5	5.3
1989	16.3	6.7	9.6	5.2	4.4
1990	16	7.5	8.5	4.8	3.7
1991	16	8.1	7.9	4.6	3.3
1992	16	8.5	7.5	4.5	3

RATIO ANALYSIS

YEAR	RETURN ON ASSETS #	RETURN ON EQUITY #	DEBT TO EQUITY	RESERVES TO GROSS LOANS
1983	-7.6	-10.2	.7	1.5
1984	-2.4	-7.1	3.2	1.9
1985	2.4	12.9	4.9	2.2
1986	5.4	32.4	5	2.6
1987	6	32.3	4	3
1988	5.3	26.3	3.9	3.3
1989	4.4	21.7	3.9	3.6
1990	3.7	18	3.9	3.8
1991	3.3	16	3.8	4.1
1992	3	14.4	3.7	4.4

NOTE: BASED ON AVERAGE BALANCES

DEVELOPMENT FINANCE CORPORATION OF HAITI
PROJECTED INCOME STATEMENT
1983 TO 1992
U.S. DOLLARS
ZERO DIVIDENDS

YEAR	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
OPERATING INCOME										
FIXED DEPOSITS	99482	106959	164272	224585	112855	0	0	0	0	0
PORTFOLIO # 1	25200	155263	459191	835973	1231167	1602925	1992582	2354573	2732363	3091978
PORTFOLIO # 2	17640	81798	184678	298290	364815	435710	518274	599074	687195	778019
PORTFOLIO # 3	2080	11410	27769	53423	75346	95824	117947	138339	160286	181338
PORTFOLIO # 4	1860	10473	27581	49671	70026	88771	109522	128278	148629	168150
FEES GUARANTEES	0	0	0	1740	2020	2340	2720	3160	3520	3880
FEES CLOSINGS	12600	41200	70940	86520	100520	116780	135660	157580	175900	193520
TOTAL OPERATING INCOME	158462	407093	916431	1540202	1956749	2342550	2876706	3381004	2909892	4416884
INTEREST EXPENSE										
USAID LOAN1	15750	83000	223175	380925	450000	450000	450000	450000	450000	450000
USAID LOAN2	0	0	0	0	0	0	0	0	0	0
OTHER LONG TERM DEBT	0	0	0	0	51458	289991	683869	1074324	1451308	1800698
TOTAL INTEREST EXPENSE	15750	83000	223175	380925	501458	739991	1133869	1524324	1901308	2250698
NET OPERATING INCOME	142712	324093	693256	1159277	1455291	1602559	1742837	1856680	2008585	2166187
OTHER EXPENSES										
PROVISION FOR LOAN LOSSES	9450	39169	86149	135536	183317	229976	279048	329011	375576	421663
LOSSES ON GUARANTEES	0	0	0	0	0	870	1010	1170	1360	1580
OPERATING EXPENSES	210000	295000	385000	410000	468000	515000	566000	623000	685000	754000
DEPRECIATION	7143	7143	10714	14286	14286	14286	24286	17143	17143	17143
TOTAL OTHER EXPENSES	226593	341312	481863	567822	665603	760132	870344	970324	1079079	1194386
NET INCOME	-83881	-17219	211393	591455	789688	842426	872493	886356	929506	971801

SOURCES AND USES OF WORKING CAPITAL

SOURCES OF WORKING CAPITAL										
OPERATIONS	-83881	-17219	211393	591455	789688	842426	872493	886356	929506	971801
DEPRECIATION	7143	7143	10714	14286	14286	14286	24286	17143	17143	17143
PROVISION FOR LOAN LOSSES	9450	39169	86149	135536	183317	229976	279048	329011	375576	421663
PAID IN CAPITAL	0	0	200000	100000	0	0	0	0	0	0
INCREASE IN LONG TERM DEBT	630000	2060000	3547000	2763000	633332	2358226	2565248	2528604	2258483	2178217
TOTAL SOURCES	562712	2089093	4055256	3604277	1620623	3444915	3741074	3761114	3580708	3588824
USES OF WORKING CAPITAL										
NET INCREASE IN LOANS PLACED	630000	1981250	3132000	3298000	3211500	3168050	3361000	3453100	3257600	3258509
DIVIDENDS PAID	0	0	0	147864	197422	210607	218123	221589	232377	242950
FIXED ASSETS PURCHASED	0	0	50000	0	0	0	70000	0	0	0
TOTAL USES	630000	1981250	3182000	3446664	3408922	3378657	3649923	3674689	3489977	3501450
NET CHANGE IN WORKING CAPITAL	67288	107843	873256	157614	-1788299	66258	91151	86425	90731	87374

ANNEX L
Exhibit 2
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DEVELOPMENT FINANCE COMPANY OF HAITI
PROJECTED BALANCE SHEET
1983 THROUGH 1992
U.S. DOLLARS
25% DIVIDENDS

YEAR	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
CURRENT ASSETS										
CASH	17500	24581	32983	34833	39900	42917	47167	51917	57083	62833
FUND DEPOSITS	851490	931164	1154824	1047528	0	0	0	0	0	0
UNDISTRIBUTED RATE INCOME	26410	67849	152778	256700	326125	390425	479451	563501	651649	736147
TOTAL CURRENT ASSETS	895400	1023596	1335646	1338972	365125	433342	526618	615417	708732	798981
LOAN PORTFOLIO										
PORTFOLIO # 1	315000	1511625	3504443	5973535	8300862	10557081	12885055	15229250	17395982	19523155
PORTFOLIO # 2	252000	838500	1587511	2176364	2648090	3161372	3748954	4374079	4970935	5578474
PORTFOLIO # 3	32000	131000	286810	459056	607430	761472	923488	1088720	1242709	1394934
PORTFOLIO # 4	31000	130125	286186	449682	607314	761472	923488	1088720	1242709	1394934
TOTAL GROSS LOANS	630000	2611250	5726950	9009628	12163705	15241398	18480986	21780769	24852337	27891496
LESS RESERVE FOR LOSSES	9450	48619	128468	237891	363776	503395	660231	835925	1025469	1227790
TOTAL NET LOANS	620550	2562631	5600483	8771746	11799929	14738003	17820755	20944844	23826868	26663706
FIXED ASSETS										
NET OF DEPRECIATION	42857	35714	25000	60714	46428	32142	77856	60713	43570	26427
TOTAL ASSETS	1558807	3621941	7619178	10966532	12211482	15203486	18425229	21620974	24579170	27489113
CURRENT LIABILITIES	12688	35042	71835	112648	132900	133958	136683	138458	141042	143917
LONG TERM DEBT										
BOARD LOANS	630000	2690000	6220000	9000000	9000000	9000000	9000000	9000000	9000000	9000000
BOARD LOANS 2	0	0	0	0	0	0	0	0	0	0
TOTAL LONG TERM DEBT	0	0	0	0	633332	2991558	5556806	8085409	10343892	12522110
TOTAL LONG TERM DEBT	630000	2690000	6220000	9000000	9633332	11991558	14556806	17085409	19343892	21522110
TOTAL LIABILITIES	642688	2725042	6291835	9112648	9765332	12125516	14692489	17223868	19484934	21666026
SHAREHOLDERS EQUITY										
PAID IN CAPITAL	1000000	1000000	1200000	1300000	1300000	1300000	1300000	1300000	1300000	1300000
RETAINED EARNINGS	-83881	-103100	119343	553884	1146150	1777970	2432340	3097106	3794236	4523087
TOTAL EQUITY	916119	896900	1319343	1853884	2446150	3077970	3732340	4397106	5094236	5823087
TOTAL LIABILITIES AND EQUITY	1558806	3621942	7619178	10966532	12211482	15203486	18425228	21620974	24579170	27489113

ANNEX L
Exhibit 2
Page 26 of 36

DEVELOPMENT FINANCE COMPANY OF HAITI
25% DIVIDENDS

YIELD ANALYSIS

YEAR	INTEREST INCOME	INTEREST EXPENSE	NET OPERATING INCOME	OTHER EXPENSE	NET INCOME
1983	13	1.3	11.7	18.6	-6.9
1984	16.2	3.3	12.9	13.6	-.7
1985	16.6	4	12.6	8.7	3.8
1986	16.8	4.2	12.6	6.2	6.4
1987	17	4.4	12.6	5.8	6.9
1988	17.1	5.4	11.7	5.5	6.1
1989	17.1	6.7	10.3	5.2	5.2
1990	16.8	7.6	9.2	4.8	4.4
1991	16.8	8.2	8.6	4.6	4
1992	16.7	8.5	8.2	4.5	3.7

RATIO ANALYSIS

YEAR	RETURN ON ASSETS #	RETURN ON EQUITY #	DEBT TO EQUITY	RESERVES TO GROSS LOANS
1983	-6.6	-8.8	.7	1.5
1984	-.7	-1.9	3	1.9
1985	3.8	19.1	4.8	2.2
1986	6.4	37.4	4.9	2.6
1987	6.8	36.7	4	3
1988	6.1	30.5	3.9	3.3
1989	5.2	25.6	3.9	3.6
1990	4.4	21.8	3.9	3.8
1991	4	19.6	3.8	4.1
1992	3.7	17.8	3.7	4.4

NOTE: BASED ON AVERAGE BALANCES

DEVELOPMENT FINANCE COMPANY OF HAITI
PROJECTED INCOME STATEMENT
1983 TO 1992
U.S. DOLLARS
WORST CASE

YEAR	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
OPERATING INCOME										
FIXED DEPOSITS	98477	83894	124787	162734	74645	0	0	0	0	0
PORTFOLIO # 1	25200	136997	356261	617907	853152	1124034	1393123	1665750	1927003	2173499
PORTFOLIO # 2	17640	79883	145751	204248	238315	280576	342231	401075	459970	517553
PORTFOLIO # 3	2080	9780	22768	36779	47404	61176	75101	89417	103279	116462
PORTFOLIO # 4	1860	8862	20865	33056	42117	54392	66756	79482	91804	103522
FEES-GUARANTEES	0	0	0	1740	2020	2340	2720	3160	3520	3880
FEES CLOSINGS	0	0	0	0	0	0	0	0	0	0
TOTAL OPERATING INCOME	145257	310415	670072	1058464	1257652	1530539	1879930	2238890	2585576	2914916
INTEREST EXPENSE										
USAID LOAN1	15750	83000	223175	380925	450000	450000	450000	450000	450000	450000
USAID LOAN2	0	0	0	0	0	0	0	0	0	0
OTHER LONG TERM DEBT	0	0	0	0	38247	223586	527016	844165	1147256	1430707
TOTAL INTEREST EXPENSE	15750	83000	223175	380925	488247	673586	977816	1294165	1597256	1880707
NET OPERATING INCOME	129507	227415	446897	677539	769406	856953	902114	944725	988319	1034209
OTHER EXPENSES										
PROVISION FOR LOAN LOSSES	15750	65281	143581	225789	304788	381796	462078	543323	618399	692161
LOSSES ON GUARANTEES	0	0	0	0	0	870	1010	1170	1360	1580
OPERATING EXPENSES	210000	295000	385000	418000	468000	515000	566000	623000	685000	754000
DEPRECIATION	7143	7143	10714	14286	14286	14286	24286	17143	17143	17143
TOTAL OTHER EXPENSES	232893	367424	539295	658075	787274	911952	1053374	1184636	1321902	1464884
NET INCOME	-103386	-140009	92398	19464	-17869	-55000	-151260	-239911	-333583	-430675

SOURCES AND USES OF WORKING CAPITAL

SOURCES OF WORKING CAPITAL										
OPERATIONS	-103386	-140009	92398	19464	-17869	-55000	-151260	-239911	-333583	-430675
DEPRECIATION	7143	7143	10714	14286	14286	14286	24286	17143	17143	17143
PROVISION FOR LOAN LOSSES	15750	65281	143581	225789	304788	381796	462078	543323	618399	692161
PAID IN CAPITAL	0	0	700000	500000	100000	200000	300000	300000	400000	500000
INCREASE IN LONG TERM DEBT	630000	2060000	3547000	2763000	695395	2674407	2857053	2894747	2616005	2537636
TOTAL SOURCES	549507	1992415	4308897	3522539	1096801	3215490	3492157	3515301	3317964	3316265
USES OF WORKING CAPITAL										
NET INCREASE IN LOANS PLACED	630000	1981250	3132000	3290800	3211500	3168050	3361800	3453100	3257600	3258500
DIVIDENDS PAID	0	0	0	0	0	0	0	0	0	0
FIXED ASSETS PURCHASED	0	0	50000	0	0	0	70000	0	0	0
TOTAL USES	630000	1981250	3182000	3290800	3211500	3168050	3431800	3453100	3257600	3258500
NET CHANGE IN WORKING CAPITAL	80473	11165	1126897	231739	2114679	47440	60357	62201	60364	57765

DEVELOPMENT FINANCE COMPANY OF HAITI
PROJECTED BALANCE SHEET
1983 THROUGH 1992
U.S. DOLLARS
WORST CASE

YEAR	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
CURRENT ASSETS										
CASH	17500	24583	32903	34833	39000	42917	47167	51917	57083	62833
FIXED DEPOSITS	840485	837395	1735642	2132712	0	0	0	0	0	0
INTEREST RECEIVABLE	24209	51736	111679	176411	209609	255090	313322	37314B	430929	485819
TOTAL CURRENT ASSETS	882195	913714	2079404	2343955	248609	298006	360488	425065	488013	548653
LOAN PORTFOLIOS										
PORTFOLIO # 1	315000	1511625	3577822	5959208	8259987	10473917	12744792	15017815	17098905	19126072
PORTFOLIO # 2	252000	830500	1582352	2131241	2635051	3136468	3708144	4313351	4866045	5465013
PORTFOLIO # 3	32000	131000	286600	448977	604447	755473	913436	1073605	1221487	1366562
PORTFOLIO # 4	31000	130125	285976	448604	604324	755473	913436	1073605	1221487	1366562
TOTAL GROSS LOANS	630000	2611250	5732750	8988029	12103808	15121333	18279807	21478376	24427924	27324209
LESS RESERVE FOR LOSSES	15750	81031	214113	396380	605648	836918	1095671	1384463	1694810	2024756
TOTAL NET LOANS	614250	2530219	5518638	8591649	11498161	14284414	17184136	20093913	22733114	25299453
FIXED ASSETS										
NET OF DEPRECIATION	42857	35714	75000	60714	46428	32142	77856	60713	43570	26427
TOTAL ASSETS	1539302	3479647	7673042	10996318	11793197	14614562	17622480	20579691	23264696	25874533
CURRENT LIABILITIES	12688	33042	71835	112648	132000	133958	136083	138458	141042	143917
LONG TERM DEBT										
USAID LOAN#1	630000	2690000	6237000	9000000	9000000	9000000	9000000	9000000	9000000	9000000
USAID LOAN#2	0	0	0	0	0	0	0	0	0	0
OTHER LONG TERM DEBT	0	0	0	0	695395	3369802	6226855	9121602	11737607	14275242
TOTAL LONG TERM DEBT	630000	2690000	6237000	9000000	9695395	12369802	15226855	18121602	20737607	23275242
TOTAL LIABILITIES	642688	2723042	6308835	9112648	9827395	12503760	15362938	18260060	20878648	23419159
STOCKHOLDERS EQUITY										
PAID IN CAPITAL	1000000	1000000	1700000	2200000	2300000	2500000	2800000	3100000	3500000	4000000
RETAINED EARNINGS	-103386	-243395	-335793	-316330	-334198	-389198	-540458	-780369	-1113952	-1544627
TOTAL EQUITY	896614	756605	1364207	1883670	1965802	2110802	2259542	2319631	2386048	2455373
TOTAL LIABILITIES AND EQUITY	1539301	3479646	7673042	10996318	11793197	14614562	17622480	20579691	23264696	25874532

DEVELOPMENT FINANCE COMPANY OF HAITI
WORST CASE

YIELD ANALYSIS

YEAR	INTEREST INCOME	INTEREST EXPENSE	NET OPERATING INCOME	OTHER EXPENSE	NET INCOME
1983	12	1.3	10.7	19.2	-8.5
1984	12.6	3.4	9.2	14.9	-5.7
1985	12.1	4	8	9.7	-1.7
1986	11.3	4.1	7.2	7	.2
1987	10.8	4.2	6.6	6.8	-.2
1988	11.2	4.9	6.3	6.7	-.4
1989	11.3	5.9	5.4	6.3	-.9
1990	11.3	6.5	4.8	6	-1.2
1991	11.3	7	4.3	5.8	-1.5
1992	11.3	7.3	4	5.7	-1.7

RATIO ANALYSIS

YEAR	RETURN ON ASSETS #	RETURN ON EQUITY #	DEBT TO EQUITY	RESERVES TO GROSS LOANS
1983	-8.1	-10.9	.7	2.5
1984	-5.6	-16.9	3.6	3.1
1985	-1.7	-8.7	4.6	3.7
1986	.2	1.2	4.8	4.4
1987	-.2	-.9	5	5
1988	-.4	-2.7	5.9	5.5
1989	-.9	-6.9	6.8	6
1990	-1.3	-10.5	7.9	6.4
1991	-1.5	-14.2	8.8	6.9
1992	-1.8	-17.8	9.5	7.4

NOTE: BASED ON AVERAGE BALANCES

DEVELOPMENT FINANCE COMPANY OF HAITI
PROJECTED INCOME STATEMENT
1983 TO 1992
U.S. DOLLARS
REDUCED LENDING TO BREAKEVEN 30%

YEAR	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
OPERATING INCOME										
FIXED DEPOSITS	97562	91402	80462	104624	184654	184537	77395	9943	0	0
PORTFOLIO # 1	7560	46579	131757	250792	369350	480878	597774	706372	819709	927593
PORTFOLIO # 2	5292	24536	55404	86487	109444	130713	155482	179722	206758	233406
PORTFOLIO # 3	624	3423	8931	16027	22604	28747	35384	41502	48086	54401
PORTFOLIO # 4	558	3142	8274	14701	21008	26691	32857	38483	44589	50445
FEES GUARANTEES	0	0	0	1740	2020	2340	2720	3160	3520	3880
FEES CLOSINGS	3780	12360	21282	25956	30156	35034	40698	47274	52770	58056
TOTAL OPERATING INCOME	115376	181442	306110	500527	739236	888940	942310	1026456	1175432	1327781
INTEREST EXPENSE										
USAID LOAN#1	4725	24900	66953	126000	196140	233835	233835	233835	233835	233835
USAID LOAN#2	0	0	0	0	0	0	0	0	0	0
OTHER LONG TERM DEBT	0	0	0	0	0	0	0	61089	196687	351432
TOTAL INTEREST EXPENSE	4725	24900	66953	126000	196140	233835	233835	294924	430522	585267
NET OPERATING INCOME	110651	156542	239157	374527	543096	655105	708475	731532	744910	742514
OTHER EXPENSES										
PROVISION FOR LOAN LOSSES	2835	11751	25845	40661	54995	68993	83714	98703	112673	126499
LOSSES ON GUARANTEES	0	0	0	0	0	870	1010	1170	1360	1580
OPERATING EXPENSES	210000	295000	385000	418000	468000	515000	566000	623000	685000	754000
DEPRECIATION	7143	7143	10714	14286	14286	14286	24286	17143	17143	17143
TOTAL OTHER EXPENSES	219978	313894	421559	472947	537281	599149	675010	740016	816176	899222
NET INCOME	-109327	-157352	-182402	-98420	5815	55956	33465	-8484	-71266	-156708

SOURCES AND USES OF WORKING CAPITAL

SOURCES OF WORKING CAPITAL										
OPERATIONS	-109327	-157352	-182402	-98420	5815	55956	33465	-8484	-71266	-156708
DEPRECIATION	7143	7143	10714	14286	14286	14286	24286	17143	17143	17143
PROVISION FOR LOAN LOSSES	2835	11751	25845	40661	54995	68993	83714	98703	112673	126499
PAID IN CAPITAL	0	0	0	200000	300000	0	0	0	0	0
INCREASE IN LONG TERM DEBT	189000	618000	1064100	1297800	1507800	0	0	775733	946143	1018883
TOTAL SOURCES	89651	479542	918257	1454327	1882896	139235	141465	883094	1004693	1005817
USES OF WORKING CAPITAL										
NET INCREASE IN LOANS PLACED	189000	594375	939600	989640	963450	950415	1008540	1035930	977280	977550
DIVIDENDS PAID	0	0	0	0	0	5596	3346	0	0	0
FIXED ASSETS PURCHASED	0	0	50000	0	0	0	70000	0	0	0
TOTAL USES	189000	594375	989600	989640	963450	956011	1081886	1035930	977280	977550
NET CHANGE IN WORKING CAPITAL	99349	114833	-71343	464687	919446	-816776	-940421	-152836	27413	28267

ANNEX I
Exhibit 2
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DEVELOPMENT FINANCE COMPANY OF HAITI
PROJECTED BALANCE SHEET
1983 THROUGH 1992
U.S. DOLLARS
REDUCED LENDING TO BREAKEVEN 30%

YEAR	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
CURRENT ASSETS										
CASH	17500	24583	32083	34833	39000	42917	47167	51917	57083	62833
FIXED DEPOSITS	823853	679511	614153	1059824	1954937	1120676	169235	0	0	0
INTEREST RECEIVABLE	19229	30240	51018	83421	123206	148157	157052	171076	195905	221297
TOTAL CURRENT ASSETS	860582	754335	697255	1178078	2117143	1311749	373453	222993	252989	284130
LOAN PORTFOLIOS										
PORTFOLIO # 1	94500	453488	1074133	1792060	2490259	3167124	3865517	4568775	5218795	5856946
PORTFOLIO # 2	75600	251550	475053	640909	794427	948412	1124686	1312224	1491281	1673542
PORTFOLIO # 3	9600	39300	86043	135017	182231	228442	277047	326616	372813	418480
PORTFOLIO # 4	9300	39038	85856	134905	182194	228442	277047	326616	372813	418480
TOTAL GROSS LOANS	189000	783375	1721085	2702891	3649112	4572419	5544296	6534231	7455701	8367449
LESS RESERVE FOR LOSSES	2835	14586	38540	71367	109133	151018	198069	250777	307641	368337
TOTAL NET LOANS	186165	768789	1682545	2631524	3539979	4421401	5346226	6283453	7148060	7999112
FIXED ASSETS										
NET OF DEPRECIATION	42857	75714	75000	60714	46428	32142	77856	60713	43570	26427
TOTAL ASSETS	1089604	1558838	2454799	3870316	5703550	5765292	5797536	6567159	7444619	8309669
CURRENT LIABILITIES	9931	18517	32780	48917	68535	79917	82042	84417	87000	89875
LONG TERM DEBT										
USAID LOAN#1	189000	807000	1871100	3168900	4676700	4676700	4676700	4676700	4676700	4676700
USAID LOAN#2	0	0	0	0	0	0	0	0	0	0
OTHER LONG TERM DEBT	0	0	0	0	0	0	0	775733	1721875	2740758
TOTAL LONG TERM DEBT	189000	807000	1871100	3168900	4676700	4676700	4676700	5452433	6398575	7417458
TOTAL LIABILITIES	198931	825517	1903880	3217817	4745235	4756617	4758742	5536850	6485576	7507333
STOCKHOLDERS EQUITY										
PAID IN CAPITAL	1000000	1000000	1000000	1200000	1500000	1500000	1500000	1500000	1500000	1500000
RETAINED EARNINGS	-109327	-266679	-449080	-547500	-541685	-491325	-461207	-469691	-540957	-697664
TOTAL EQUITY	890673	733321	550920	652500	958315	1008675	1028793	1030309	959043	802336
TOTAL LIABILITIES AND EQUITY	1089604	1558838	2454799	3870316	5703550	5765292	5797535	6567159	7444619	8309669

DEVELOPMENT FINANCE COMPANY OF HAITI
REDUCED LENDING TO BREAKEVEN 30%

YIELD ANALYSIS

YEAR	INTEREST INCOME	INTEREST EXPENSE	NET OPERATING INCOME	OTHER EXPENSE	NET INCOME
1983	11.8	.5	11.3	22.4	-11.1
1984	14.5	2	12.5	25.2	-12.6
1985	16	3.5	12.5	22.1	-9.6
1986	16.4	4.1	12.3	15.5	-3.2
1987	15.8	4.2	11.6	11.5	.1
1988	15.7	4.1	11.6	10.6	1
1989	16.5	4.1	12.4	11.8	.6
1990	16.8	4.8	11.9	12.1	-.1
1991	16.8	6.2	10.6	11.7	-1
1992	16.8	7.4	9.4	11.4	-2

RATIO ANALYSIS

YEAR	RETURN ON ASSETS #	RETURN ON EQUITY #	DEBT TO EQUITY	RESERVES TO GROSS LOANS
1983	-10.5	-11.6	.2	1.5
1984	-11.9	-19.4	1.1	1.9
1985	-9.1	-28.4	3.5	2.2
1986	-3.1	-16.4	4.9	2.6
1987	.1	.7	5	3
1988	1	5.7	4.7	3.3
1989	.6	3.3	4.6	3.6
1990	-.1	-.8	5.4	3.8
1991	-1	-7.2	6.8	4.1
1992	-2	-17.8	9.4	4.4

NOTE: BASED ON AVERAGE BALANCES

DEVELOPMENT FINANCE COMPANY OF HAITI
PROJECTED INCOME STATEMENT
1983 TO 1992
U.S. DOLLARS
OTHER BORROWINGS AT PRIME - 3%

YEAR	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
OPERATING INCOME										
FIXED DEPOSITS	99082	106959	164272	223846	112131	0	0	0	0	0
PORTFOLIO # 1	25200	155263	439191	835973	1231167	1602925	1992582	2354573	2732363	3091978
PORTFOLIO # 2	17640	81788	184678	288290	364815	435710	518274	599074	689195	778019
PORTFOLIO # 3	2080	11410	29769	53423	75346	95824	117747	138339	160286	181338
PORTFOLIO # 4	1860	10473	27581	49671	70026	88971	109522	128278	148629	169150
FEES-GUARANTEES	0	0	0	1740	2020	2340	2720	3160	3520	3880
FEES CLOSINGS	12600	41200	70940	86520	100520	116780	135660	157580	175900	193520
TOTAL OPERATING INCOME	158462	407093	916431	1539463	1956025	2342550	2876706	3381004	3909892	4416884
INTEREST EXPENSE										
USAID LOAN#1	15750	83000	223175	380925	450000	450000	450000	450000	450000	450000
USAID LOAN#2	0	0	0	0	0	0	0	0	0	0
OTHER LONG TERM DEBT	0	0	0	0	31183	189590	451608	693549	910035	1087612
TOTAL INTEREST EXPENSE	15750	83000	223175	380925	481183	639590	901608	1143549	1360035	1537612
NET OPERATING INCOME	142712	324093	693256	1158538	1474842	1702959	1975098	2237455	2549857	2879273
OTHER EXPENSES										
PROVISION FOR LOAN LOSSES	9450	37169	86149	135536	183317	229976	279048	329011	375576	421663
LOSSES ON GUARANTEES	0	0	0	0	0	870	1010	1170	1360	1580
OPERATING EXPENSES	210000	295000	385000	418000	468000	515000	566000	623000	685000	754000
DEPRECIATION	7143	7143	10714	14286	14286	14286	24286	17143	17143	17143
TOTAL OTHER EXPENSES	226593	341312	481863	567822	665603	760132	870344	970324	1079079	1194386
NET INCOME	-83881	-17219	211393	590716	809239	942827	1104754	1267131	1470779	1684887

SOURCES AND USES OF WORKING CAPITAL

SOURCES OF WORKING CAPITAL										
OPERATIONS	-83881	-17219	211393	590716	809239	942827	1104754	1267131	1470779	1684887
DEPRECIATION	7143	7143	10714	14286	14286	14286	24286	17143	17143	17143
PROVISION FOR LOAN LOSSES	9450	39169	86149	135536	183317	229976	279048	329011	375576	421663
PAID IN CAPITAL	0	0	200000	0	0	0	0	0	0	0
INCREASE IN LONG TERM DEBT	630000	2060000	3547000	2763000	509109	2141622	2225339	2052953	1631912	1390670
TOTAL SOURCES	562712	2089093	4055256	3503538	1515951	3328712	3633426	3666238	3495409	3514362
USES OF WORKING CAPITAL										
NET INCREASE IN LOANS PLACED	630000	1781250	3132000	3298800	3211500	3168050	3361800	3453100	3257600	3258500
DIVIDENDS PAID	0	0	0	59072	80924	94283	110475	126713	147078	168489
FIXED ASSETS PURCHASED	0	0	50000	0	0	0	70000	0	0	0
TOTAL USES	630000	1981250	3182000	3357872	3292424	3262333	3542275	3579813	3404678	3426989
NET CHANGE IN WORKING CAPITAL	67288	107843	873256	145667	-1776473	66379	91151	86425	90731	87374

ANNEX L

Exhibit 2
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DEVELOPMENT FINANCE COMPANY OF HAITI
PROJECTED BALANCE SHEET
1983 THROUGH 1992
U.S. DOLLARS
OTHER BORROWINGS AT PRIME - 3%

YEAR	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
CURRENT ASSETS										
CASH	17500	24583	32083	34833	39000	42917	47167	51917	57083	62833
FIXED DEPOSITS	851470	931164	1750824	1830714	0	0	0	0	0	0
INTEREST RECEIVABLE	26410	67849	152730	256577	326004	390425	479451	563501	651649	736147
TOTAL CURRENT ASSETS	895400	1023596	1935646	2122125	365004	433342	526618	615417	708732	798981
LOAN PORTFOLIOS										
PORTFOLIO # 1	315000	1511625	3580443	5973535	8300862	10557081	12885055	15229250	17395982	19523155
PORTFOLIO # 2	252000	838500	1583511	2136364	2648090	3161372	3748954	4374079	4970935	5578474
PORTFOLIO # 3	32000	131000	206810	450056	607438	761472	923488	1088720	1242709	1394934
PORTFOLIO # 4	31000	130125	286186	449682	607314	761472	923488	1088720	1242709	1394934
TOTAL GROSS LOANS	630000	2611250	5736950	9009638	12163705	15241398	18480986	21780769	24852337	27891496
LESS RESERVE FOR LOSSES	9450	48619	128460	237891	363776	503395	660231	835925	1025469	1227790
TOTAL NET LOANS	620550	2562631	5608483	8771746	11799929	14738003	17820755	20944844	23826868	26663706
FIXED ASSETS										
NET OF DEPRECIATION	42857	35714	75000	60714	46428	32142	77856	60713	43570	26427
TOTAL ASSETS	1558807	3621941	7619128	10954585	12211361	15203486	18425229	21620974	24579170	27489113
CURRENT LIABILITIES	12608	33042	71835	112648	132000	133958	136083	138458	141042	143917
LONG TERM DEBT										
USAID LOAN#1	630000	2690000	6237000	9000000	9000000	9000000	9000000	9000000	9000000	9000000
USAID LOAN#2	0	0	0	0	0	0	0	0	0	0
OTHER LONG TERM DEBT	0	0	0	0	509109	2650731	4876070	6929022	8560934	9951604
TOTAL LONG TERM DEBT	630000	2690000	6237000	9000000	9509109	11650731	13876070	15929022	17560934	18951604
TOTAL LIABILITIES	612688	2723042	6308835	9112648	9641109	11784689	14012153	16067481	17701976	19095521
STOCKHOLDERS EQUITY										
PAID IN CAPITAL	1000000	1000000	1200000	1200000	1200000	1200000	1200000	1200000	1200000	1200000
RETAINED EARNINGS	83881	-101100	110293	641937	1370253	2218797	3213075	4353493	5677194	7193593
TOTAL EQUITY	916119	898900	1310293	1841937	2570253	3418797	4413075	5553493	6877194	8393593
TOTAL LIABILITIES AND EQUITY	1558806	3621942	7619128	10954585	12211361	15203486	18425228	21620974	24579170	27489113

DEVELOPMENT FINANCE COMPANY OF HAITI
OTHER BORROWINGS AT PRIME 3%

YIELD ANALYSIS

YEAR	INTEREST INCOME	INTEREST EXPENSE	NET OPERATING INCOME	OTHER EXPENSE	NET INCOME
1983	13	1.3	11.7	18.6	-6.9
1984	16.2	3.3	12.9	13.6	-.7
1985	16.6	4	12.6	8.7	3.8
1986	16.8	4.2	12.6	6.2	6.4
1987	17	4.2	12.8	5.8	7
1988	17.1	4.7	12.4	5.5	6.9
1989	17.1	5.3	11.7	5.2	6.6
1990	16.8	5.7	11.1	4.8	6.3
1991	16.8	5.8	10.9	4.6	6.3
1992	16.7	5.8	10.9	4.5	6.4

RATIO ANALYSIS

YEAR	RETURN ON ASSETS #	RETURN ON EQUITY #	DEBT TO EQUITY	RESERVES TO GROSS LOANS
1983	-6.6	-8.8	.7	1.5
1984	-.7	-1.9	3	1.9
1985	3.8	19.1	4.8	2.2
1986	6.4	37.5	4.9	2.6
1987	7	36.7	3.8	3
1988	6.9	31.5	3.4	3.3
1989	6.6	28.2	3.2	3.6
1990	6.3	25.4	2.9	3.8
1991	6.4	23.7	2.6	4.1
1992	6.5	22.1	2.3	4.4

NOTE: BASED ON AVERAGE BALANCES

FINANCIAL PLAN
SENSITIVITY ANALYSIS

INCREASE (DECREASE) ON NET YIELD FROM BASE CASE
(Basis Points)*

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Base Case Actual	(690)	(70)	380	640	690	640	550	480	450	430
Prime to 10%	0	(210)	(330)	(440)	(520)	(500)	(470)	(430)	(440)	(440)
Market - 25%	0	0	(20)	(40)	(30)	50	140	170	160	140
Administrative Expenses + 10%	(190)	(140)	(70)	(40)	(50)	(40)	(40)	(40)	(40)	(40)
1% Provision	30	50	60	50	60	50	60	60	60	70
2.5% Provision	(50)	(100)	(90)	(80)	(80)	(90)	(90)	(90)	(90)	(100)
No Closing Fees	(110)	(180)	(130)	(110)	(90)	(110)	(110)	(110)	(120)	(130)
25% Dividends	0	0	0	0	0	(30)	(30)	(40)	(50)	(60)
$4 MM AID Loan	0	0	(170)	(370)	(500)	(510)	(470)	(470)	(440)	(440)
Worst Case	(160	(500)	(550)	(620)	(700)	(680)	(645)	(600)	(590)	(600)

*/ Basis points: 100 basis points equals 1 percentage point.

FINANCIAL PLAN
SENSITIVITY ANALYSIS

RETURN ON ASSETS

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Base Case	(6.6)	(0.7)	3.8	6.4	6.9	6.4	5.5	4.9	4.6	4.4
Prime to 10%	(6.6)	(2.7)	0.5	2.0	1.7	1.5	0.8	0.5	0.1	(0.1)
Market -25%	(6.6)	(0.7)	3.5	6.0	6.5	6.9	7.0	6.6	6.2	5.8
Administrative Expenses + 10%	(8.4)	(2.0)	2.0	5.9	6.5	6.0	5.1	4.5	4.1	3.9
1% provision	(6.3)	(0.2)	4.3	6.8	7.4	6.9	6.0	5.4	5.1	5.0
2.5% provision	(7.1)	(1.7)	2.9	3.6	6.2	5.7	4.8	4.0	3.7	3.5
No Closing Fees	(7.6)	(2.4)	2.4	5.4	6.0	5.3	4.4	3.7	3.3	3.0
25% Dividend	(6.6)	(0.7)	3.8	6.4	6.8	6.1	5.2	4.4	4.0	3.7
$4 MM AID Loan	(6.6)	(0.7)	2.0	2.6	1.9	1.3	0.8	0.4	0.1	(0.1)
Worst Case	(8.1)	(5.6)	(1.7)	0.2	(0.1)	(0.4)	(0.9)	(1.3)	(1.5)	(1.8)

FINANCIAL PLAN
SENSITIVITY ANALYSIS

INTERNAL GROWTH RATE OF CAPITAL*

Year	83-84	84-85	85-86	86-87	87-88	88-89	89-09	90-91	91-92
Base Case	(1.9)	23.5	45.1	43.3	34.1	27.8	23.3	20.8	18.9
Prime to 10%	(7.6)	3.5	14.1	10.4	9.4	6.2	3.9	1.3	(1.4)
Market - 25%	(1.9)	21.6	42.3	39.3	32.5	28.1	24.0	21.4	19.5
Administrative Expenses + 10%	(5.8)	20.1	42.2	39.7	31.7	26.0	21.8	19.4	17.6
1% Provision	(0.5)	26.3	47.0	44.7	35.3	29.0	24.5	22.0	20.1
2.5% Provision	(4.8)	18.5	39.1	37.3	29.8	24.2	20.0	17.8	16.1
No Closing Fees	(6.9)	16.2	39.4	37.7	29.8	24.0	19.6	17.2	15.3
25% Dividends	(1.9)	23.5	45.1	42.6	34.4	28.3	23.7	21.1	19.1
$4 MM AID Loan	(1.9)	10.6	19.9	13.1	8.9	6.1	3.1	1.0	(1.3)
Worst Case	(15.6)	(12.2)	1.4	(0.7)	(2.4)	(7.1)	(10.6)	(14.3)	(18.2)

* Annual % Change in total equity capital after adjustments for additions to paid in capital and dividends paid

FINANCIAL PLAN
SENSITIVITY ANALYSIS

CUMULATIVE ADDITIONS TO PAID IN CAPITAL OVER AND ABOVE THE BASE CASE
($ 000's)

	1984	1985	1986	1987	1988	1989	1990	1991	1992
Base Case Actual	0	200	200	200	200	200	200	200	200
Prime to 10%		200	600	700	700	700	700	700	700
Market - 25%	0	0	100	100	100	100	100	100	100
Administrative Expenses + 10%	0	100	200	200	200	200	200	200	200
1% Provision	0	0	0	0	0	0	0	0	0
2.5% Provision	0	100	200	200	200	200	200	200	200
No Closing Fee	0	100	200	200	200	200	200	200	200
25% Dividend	0	0	0	100	100	100	100	100	100
$4 MM AID Loan	0	(100)	200	500	500	500	0	600	700
Worst Case	0	500	1,000	1,200	1,[illegible]	1,600	1,900	2,[illegible]	2,700

FINANCIAL PLAN
SENSITIVITY ANALYSIS

% INCREASE (DECREASE) IN OTHER LONG TERM DEBT VS BASE CASE

	1984	1985	1986	1987	1988	1989	1990	1991	1992
Base Case Actual ($000's)	$ 0	$ 0	$ 0	519	2,723	5,106	7,423	9,430	11,312
Prime to 10%	0.0	0.0	0.0	67.2	34.6	31.8	32.3	34.9	37.4
Market - 25%	0.0	0.0	0.0	(100)	(100)	(14.2)	(28.1)	(37.6)	(47.3)
Administrative Expenses + 10%	0.0	0.0	0 0	(5.4)	0.7	1.5	2.0	2.5	3.1
1% Provision	0.0	0.0	0.0	1.5	0.4	0.2	0.1	(0.1)	(0.3)
2.5 % provision	0.0	0.0	0.0	(51.8)	(12.0)	(7.1)	(5.4)	(4.7)	(4.1)
No closing fees	0.0	0.0	0.0	17.9	8.0	7.9	7.9	8.9	10.2
25% Dividend	0.0	0.0	0.0	22.0	9.8	8.8	8.9	9.7	10.7
$4 MM AID Loan*	0.0	798.5	3,447.3	1068.9	227.1	135.2	103.9	90.6	84.1
Worst Case	0.0	0.0	0.0	14.8	23.5	21.8	22.8	24.4	27.1

/ Balances of $798,473 and $3,447,273 in the years 1985 and 1986.

ADDITIONAL SENSITIVITY ANALYSES

1. 1% provision for loan losses - .66% charge off rate
   2.5% provision for loan losses - 1.66% charge off rate

These scenarios are designed to assess the potential affect of changes in the bank's loan loss provision policy in response to higher and lower actual loss rates; the 1% provision assumes that the bank has experienced or anticipates a charge off rate (net of recoveries) of .66%, while the 2.5% provision assumes anticipated losses of 1.66%. Because provisions directly affect the bank's net yield, and so its earnings, a lower provision will improve the bank's ability to retain earnings for capital growth, while an increased provision and charge off rate will have the opposite effect. Because of this secondary effect on retained earnings, the equity component of total loanable funds is affected, and the change in net yield becomes greater over time.

Under the 2.5% provision scenario, additions to paid-in capital (over and above the base case) are made in years 1985 and 1986. The 1% provision does not result in any changes to paid-in capital. Note that the 2.5% provision policy results in smaller total net loans outstanding in any year and so requires lower commercial borrowings. The 1% provision because it results in greater net loans outstanding, requires slightly greater borrowings during the years 1987 to 1990, until the increases in retained earnings offset the increases in net loans.

While the base case provision policy and net charge off experience (loan losses net of recoveries) accrues reserves equal to 4.4% of gross loans by 1992, the total allowance under the 1% policy is only 2.9% of gross loans in the same year. A 2.5% provision will bring the allowance to 7.4% of gross loans by 1992, a large allowance by U.S. commercial bank standards but near average for other Carribean development finance institutions.

To a large extent, these two scenarios illustrate the impacts of a variety of lending policies; a relatively conservative lending policy - which may include a policy of lending only to borrowers with substantial collateral - results in lower net charge off which in turn enables the bank to justify smaller annual loss provisions. This in turn allows the bank to support more of its growth in loan volume through equity capital growth, but in this case leaves the bank with smaller reserves by 1992 which could be entirely consumed by one or two unexpectedly large loan losses[1]. Obviously, in establishing its lending and provision for reserves policies, the DFC will have to balance its obligations to its borrowers and shareholders, particularly:

Its positive role as a developmental lender, with the risk posture and potential loss level this implies;

Its ability to provide for internal capital growth and most productively employ its shareholder's capital; and

Its ability to absorb large losses in later years.

2. <u>No closing fees</u>

This scenario, like the provision scenario, is included to illustrate the long-term financial impact of one of the bank's operating policy options.

The elimination of closing fees has a negative impact on net yields which declines through 1987, as closing fees represent a smaller and smaller portion of total gross income as interest earned rises. From 1987 on, the impact increases because lower earnings, both cumulative and in any year, forces the DFC to borrow more at commercial bank rates to support its loan volume.

1. We have not provided for large single unrecoverable losses in any one year in these scenarios, as it is improbable, though not impossible that the DFC would lose the entire amount of any large collateralized loan.

To remain within the debt to equity constraints, the DFC must raise $100,000 of additional paid-in capital (over and above the base case) in 1985, and again in 1986.

The arguments in favor of charging closing fees are:

It more closely matches the bank's revenues and expenses, as the up-front fees are designed to cover the administrative costs of appraising an average size loan (costs which are incurred prior to disbursements).

If the bank relies on future annual interest payments to cover these costs, it may find that loans that are paid down before the end of their contractual life are unprofitable. Though prepayment penalties may be used to guarantee that the administrative costs of each loan are covered by the earnings of that loan, the bank's borrowers may prefer to pay up-front fees to preserve their refinancing options in later years.

Such fees are in line with the policies of other development finance companies operating in this region.

The negative impact is that fees increase the effective borrowing rate for customers, although only by about 0.6 percentage points.

3. <u>25% dividends</u>

Allowing the DFC to pay out 25% of its earnings as dividends rather than the 10% assumed under the base case has no impact on net yields until 1988 after outside borrowings begin. The negative impact of greater dividends increases over time because outside borrowings are used to make up for equity funds lost until such time as the debt to equity limit is exceeded. Additional equity is required in 1986 to remain within the debt to equity constraints.

Though the bank has an obligation to provide a return to its investors, this return need not be entirely financial. It is likely that the majority of the DFC's current and future contributors will invest in the DFC based not purely on the direct financial merits of the investment. If the investor's goals are to indirectly benefit themselves through the catalytic effect of the DFC on the Haitian economy, the bank may offer a better "return" to its investors by retaining earnings as loanable funds. Thus a high dividend pay out may not be necessary. Note also that non-cash dividends might also be acceptable to the DFC's shareholders as evidence of increased ownership earned by their investments*. Related issues such as whether the bank will try to maintain a secondary market for its shares, will also be important determinants of the bank's ability to raise additional equity through the sale of stock.

Reductions in the available market are of minimal negative importance within a 25% range, although change in actual loans outstanding with no related decrease in staffing costs, does have a serious negative affect if in the range of 40%-50% which is an approximate break even point. The effect would be similar to doubling the administrative expenses with no increase in loan volume. Neither market size, nor level of loans outstanding are totally influenced by policy decisions, but by a combination of the effects of the local and international economies, the interest rate, terms, risk level and other lending policies of the DFC, and the impact of technical assistance programs.

A 25% drop in loan volume during the first three years, reflecting greater difficulty than expected in the start-up phase, produces losses of approximately $92,000 in the first year, $77,000 in the second, and a profit of $57,000 in the third. Although total net earnings for the three years are

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* Frequently non-voting stock is used for this purpose.

about $220,000 below the base case, the absolute level of the decrease is not enough to impair the future viability of the DFC, so long as the loan volume increases in the following years, or administrative expenses are reduced in line with reduced loan volumes.

4. Worst Case Scenario: Prime to 10%, increased administrative costs, no closing fees, 2.5% loan loss provision.

A worst case analysis is typicall used as a stress scenario to determine how well a planned institution will perform under the worst possible confluence of external events. A stress scenario is useful because unlike single variable sensitivity analysis, here the analyst recognizes that several external variables are likely to change over time, and further, that due to multiplicative effects, the whole may be far worse than the simple sum of its parts. The analysis discussed below combines changes in internal as well as external variables, and assumes, therefore, that management is unable to control many of the variables that are normally considered to be within their control (administrative expenses, fee policy). It must be emphasized that this worst case was not constructed to be entirely plausible*, but rather to determine how robust the DFC will be given the financial dynamics of its operations. Furthermore because it is highly unlikely that these stress conditions would prevail during the entire ten year period of analysis, the primary utility of this stress scenario is as a quantification of the single year impacts of a worst case environment.

The four changes referenced above have a major additive and cumulative effect on the DFC in any one year, forcing losses in all but one year. It is

* For example, it could be argued that given the lower overall rates assumed in the worst case scenario, the DFC would have a lower loss experience and could therefore lower its provision to 1 or 1.5.%.

difficult, however, to separate out the positive effects of additional paid in capital in the last eight years which the model forces the DFC to raise in order to remain within a maximum level of debt to net worth. In the real world, the management of the DFC would likely react to this worst case scenario by trying to institute closing fees, reducing their losses, carefully controlling administrative costs, and reviewing the possibility of increasing the margins on subloans while limiting the volume of subloans to that which can be handled with minimal outside borrowing.

DFC JOB DESCRIPTIONS

Position: GENERAL MANAGER

1. Reporting Relationship: Board of Directors

2. Progessional Background and Experience:

   Senior management experience in investment banking. Alternatively senior management experience in diversified industrial corporations (preferably agribusiness/food or general manufacturing), in such as finance and corporate planning.

   Familiarity with Haitian business environment.

3. Responsibilities:

   Overall responsibility for the conduct of the Company's day-to-day business. Initial heavy emphasis on loan evaluation as senior loan officer.

   Definition of the Company's business policy, preparation of medium and long-term business plans and corresponding recommendations to the Board; taking corresponding actions.

   Structuring of the DFC's organization and management, selection and hiring of professional staff.

   Preparation of reports to the Board on projects under consideration, problem cases and financial condition of Company.

   Review and approval of projects, within the authorization granted by the Board.

   Raising of funds.

   Officially representing the DFC.

4. Special Functions:

   Secretary to Shareholders' meetings.

   Secretary to Board meetings

   Member of Loan Committee

Position: CHIEF - LOAN EVALUATION DEPARTMENT

1. Reporting Relationship: General Manager

2. Professional Background and Experience:

Management experience in investment banking institutions or in diversified industrial companies (areas: finance, corporate planning).

Analytical ability and good business judgement, ability to prepare technical and financial analyses, especially for long term loans.

Familiarity with Haitian business environment.

Identification, evaluation, structuring, implementation of projects.

Agronomic and/or industrial background helpful.

3. Responsibilities:

Designing methodology to be used in the analysis and evaluation of projects as well as follow-up and monitoring to be coordinated with Loan Administration.

Preparation of Project analysis studies/ investment documents.

Selection of consultants.

Close supervision/monitoring of projects.

Coordinating the provision of managerial and technical assistance in connection with problem cases.

Member of Loan Committee.

Position	INVESTMENT ANALYST DEPARTMENT
1. Reporting Relationship:	Chief, Loan Evaluation
2. Professional Background and Experience:	Industrial engineer/agricultural engineer/agronomist with diversified experience in the manufacturing/agribusiness sector (particularly in project implement ation), possibly combined with consulting experience. Good knowledge of and experience with financial matters, especially project analyses. Ability to prepare technical and financial analyses. Familiarity with Haitian business environment.
3. Responsibilities:	Identification of projects. Preparation of project analysis studies, investment documents. structuring and implementation of projects. Follow-up on projects, solving of problem cases.

Position: CHIEF - LOAN ADMINISTRATION DEPARTMENT

1. Reporting Relationship: General Manager

2. Professional Background and Experience: Experience in finance department/accounting/ internal auditing with industrial company or banking institution. Experience with chartered accountant firm.

3. Responsibilities: Setting up the accounting department.

Preparing periodical financial statements and designing management information and report systems.

Performing the treasury functions of money management and funds administration.

Setting up and supervising general administration department.

Performing internal audits and audits of investor companies.

Determination of proper collateral, forms etc. for loan advances.

Inventory and collateral reviews.

Review of customers financial reports for compliance with conditions and covenants of loan agreements.

ANNEX O

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Arthur D. Little International, Inc.

REPORT TO USAID/HAITI - AUGUST 1982

An Analysis of the Demand for Medium and Long Term Industrial Credit in Haiti for the Period of 1983 - 1992

The Implications of these Findings for the Haitian Development Finance Corporation

Brussels Paris Tokyo
Houston Rio de Janeiro Toronto
London San Francisco Washington
Madrid São Paulo Wiesbaden

SUB-LOAN DEMAND ANALYSIS

INTRODUCTION

The objective of our analysis was to quantify the specific demand for DFC terms loans among the Haitian private sector during the years 1983 through 1992. Our projections are limited to loan demand from existing and contemplated private sector businesses involved in productive enterprises. These enterprises include any process or processes that significantly increases the value of raw material inputs, whether the final product is to be sold on the domestic market or abroad. It is not anticipated that the DFC will make loans to government owned operations, the distributive sector, service industries, or to stand-alone agricultural ventures (crop loans, for example). The analysis was conducted in three steps:

(1).Market Survey

To determine the existing demand for term funds among established businesses and entrepreneurs unable to access existing term credit or equity sources.

(2).Data analysis

(a). To convert the existing demand identified above, through interviews with a sample of the population of Haitian businesses, into an estimate of the total three year need for DFC loans from the universe of businesses; and

(b). To extend this three year demand to a 10 year demand through the year 1992.

(3). Institutional Considerations

To determine the ability of the DFC to satisfy the projected loan need once allowance has been made for the time required for the DFC's analysts to become fully effective within this newly established organization.

Steps (1) and (2) were used to verify the need for an institution such as the DFC to effectively provide term credit currently available to only a selected group of Haitian businesses. The third step modifies this demand to reach an estimate of probable loan volume. Each of these steps incorporates both quantitative methods and a qualitative assessment based on impressions gained during the interviews. The methodologies employed and the underlying assumptions of each step are discussed below.

I. MARKET SURVEY

During a two week period, with the assistance of a local consulting firm 1/ and the cooperation of AHDI 2/ and the DFC contributors, interviews were conducted with 32 established businesses in Port-au-Prince, as well as a number of commercial and government sponsored banks in Port-au-Prince. These businesses were selected from a list of 225 productive operations with more than 20 full time employees. The number of employees was felt to be a reasonable proxy for firm size, and the minimum was established to limit the survey to medium and large enterprises as small and micro businesses are currently served by the Haitian Development Foundation, or entirely self financed. Prior to the interviews, we stratified our list of businesses into three categories. The first, agro-industries operations, includes all businesses active in final or intermediate processing of agricultural commodities. This includes, for example, food and beverage processors but excludes primary producers or growers. The next category,

1/ Capital Consult, S.A.

2/ Association des Industries d'Haiti (ADIH)

manufacturing operations, includes firms producing finished or semi-finished food from domestic or imported raw materials of a non-agricultural nature. This segment would include enterprises such as metal fabricators, tile manufacturers and textile operations. The third category, assembly operations, is composed entirely of firms that operate as sub-contractors for foreign firms assembling imported components for re-export to the foreign firm. Typically assembly firms are provided with capital equipment and raw materials and add value to the raw materials through one or more simple, labor intensive assembly operations. These attributes distinguish this category from the agro-industrial and manufacturing categories where capital needs are typically greater, and production is sold primarily on the domestic market.

These categories were selected because the survey team felt that they offered greater homogeneity of capital needs than an unstratified sample and universe, (i.e. that within each category, we could assume with some confidence that the credit needs of one firm of a given size would be similar to the needs of other firms of similar size). For example, assembly operations may be provided with equipment or capital by their overseas contracting firm, and so will typically require substantially less borrowed funds than a domestic manufacturing operation.

The primary purpose of separating both our universe and sample of productive businesses into these categories was to improve the accuracy of our sample loan demand as a realistic estimate of the demand of the universe. Our sample survey findings confirmed the validity of this stratification. For example agro-industrial operations were found, on average, to need four times more capital per employee than assembly operations, and manufacturing operations needs were still four times greater.

Because the capital needs of each of these sectors proved to be unique and quite distinct from the needs of the others, if an unstratified sample had been used as an indicator of the demand for term funds our total estimates would likely have been seriously distorted. The firms within each set of the

three categories were then stratified by size (measured by number of employees), as to further improve the quality of our sample as a measure of the population. This was based on the assumption that within a productive sector the demand for funds per employee varies with the size of the firm. In summary, our total universe of firms was stratified first by productive sectors and again, within each sector, by firm size in the belief that these divisions would produce better samples and so, better total demand estimates.

From our stratified list of the universe of productive private sector businesses a sample selection of firms was identified for interviews. Althoug a table of random numbers was used to select the target firms, during the process of scheduling interview every effort was made to ensure that DFC contributors would comprise half of the total number of firms interviewed. The DFC contributors were emphasized in the interview program because they were willing to make themselves accessible to the interview team, could offer perspectives on the need for an institution like the DFC beyond their own particular business or industry's capital requirements, and were more likely to provide realistic estimates of their own future need for funds than the general business population. The team felt that these advantages would far outweigh the potential of disjointing our sample from this deliberate bias, particularly given the qualitative adjustments eventually applied to the sample findings.

All of the interviews were conducted on site by one or more of the survey team. Those firms unfamiliar with the purpose and functions of the DFC were first given a brief update on the status of the DFC, and the anticipated terms of lending. The interviewees were asked whether they currently had any plans to borrow within the next three years for expansion of their existing operations or for new projects in an area substantially unrelated to their current business. During the interviews, information about the firm's current operations, such as products sold, markets served, number of employees, last year's sales and typical leverage ratios was also gathered as a background against which firm's own estimates of future funding needs could be assessed. Those with specific plans were asked (1) to estimate their financing needs in

each of the next three years, (2) whether they had located or would be able to locate a source of funds and, (3) for a description of current status of the project.

Using all the information gathered during the interviews the survey team developed qualitative probability factors to be applied as adjustments to the interviewees stated demand for funds during the next three years. The probability factors primarily reflect the interviewers' assessment of the likelihood that the project would be sufficiently well developed and well conceived to qualify for DFC financing within the next three years. These judgments were based on a variety of factors, including:

-- the firm's current credit standing;
-- the firm's current financial position (sales, leverage, availability of collateral);
-- the current status of the project concept;
-- the feasibility of the project

New projects or expansionary projects relying on untested technology were given a lower probability of success than those employing existing technologies, and firms with a substantial amounts of existing borrowings were deemed less likely to qualify for funds than those currently using less leverage. Two further adjustments were made to the sample findings:

(1). To relect a potential DFC loan limit policy during the first three years a ceiling of $200,000 was placed on all anticipated borrowing; and

(2). to convert our sample estimate into a measure of the need for DFC funds rather than a measure of the total demand for unspecified funds, all firms which were known or believed to have access to existing sources of funds for these future projects were subtracted from our sample.

Note that the firms eliminated included both those who had declared their ability to borrow elsewhere and those who had not but were known by the local consultanting firm to have substantial borrowing power for term credit at local commercial banks. It should also be noted that although many of the firms with other financing options stated that they would borrow from the DFC if the terms of the loans were more attractive than those offered by commercial banks this potential demand for DFC funds was not included in the estimate of the need for DFC funds.

The results of the market survey are summarized in the table below. The total number of firms in the sample represents 14.2% of the universe of Haitian businesses, while the total number of employees of our sample firms equal 12.4% of the employees in universe. Thus our sample firms are on average only slightly smaller than the average size for the universe. In the manufacturing and agro-industrial sectors, our sample firms appear (again, on average) to be somewhat smaller than the average of each sector, however in the assembly category the reverse is true. This table also summarizes the impact of the probability factors discussed earlier. In total, $2,550,000 in loan demand was identified among businesses without alternative sources of term funds, while after the probability factors were applied, $996,000 (or 39% of the unadjusted total) remains as specific and eligible demand for DFC funds. Note that new projects (diversification projects substantially unrelated to a firm's existing business) have been segregated from expansionary projects and are not attributed to specific sectors.

MARKET SURVEY

Sample and Universe Comparison

	TOTAL	AGRO-INDUSTRIAL	MANUFACTURING	ASSEMBLY	NEW PROJECTS
Number of Firms in sample 1/	32	9	13	10	-
Number of Firms in Universe	225	35	34	156	-
Unadjusted Loan Demand ($000)	$2,550	$400	$700	$580	$870
Adjusted Loan Demand ($000)	996	100	270	335	291
Number of Firms in Sample vs number in the Universe	14.2%	25.7%	38.2%	6.4%	

1/ Includes all loans within the $200,000 limit. Figure is for three year total demand.

II. DATA ANALYSIS

A. Expansionary Demand*

Two techniques were used to develop our estimate of the total need for DFC funds for expansionary purposes among the universe of private sector businesses in each of the next three years. The first is based on the assumption that within each of the three productive business sectors there exists a unique loan demand per employee ratio, and the other assumes that the demand for funds among our sample firms within each sector is substantially similar to the demand for funds among the universe of firms of similar employee size. The two techniques resulted in strikingly similar estimates of total market demand, the average of the results of the two methods was selected as the best estimate, and the effects of averaging mitigate any hidden biases of either or both methods. The two methods are described below:

Company grouping by number of employees -- The sample population was divided according to the following employee groupings for each of three activity sector categories:

NUMBER OF EMPLOYEES

20-100
101-200
201-400
More than 400

This technique implies that the future financial needs of Haitian businesses vary according to not only the type of activity (agro-industrial/assembly/manufacturing), but also the size of the operation. In determining

* From here on, the term "demand" refers to the specific demand, or need for DFC funds.

the size of each company, the most reliable indicator of size available for the entire local business population was the number of employees. For each employee grouping in the activity sectors we calculated the total number of businesses in the sample population and divided by the number of businesses in the total population. The projected loan demand of the sample population for each of the next three years was then divided by this sample/universe percentage to determine the total loan demand.

Loan dollar per employee ratio

This method assumes a close relationship between an individual company's financing requirements and the number of employees. For each sector, the total number of employees in that sector as a multiple of the total number of employes within our sample of firms was used to factor up the survey identified demand to estimate the total demand of the sector.

Because very few of the businesses in any of the three sectors employed more than 400 persons, and because it was felt that including the stated demand of the larger firms in our sample figures might result in serious overstatement of total demand even under the first technique described above, we have included the loan demand for large firms only to the extent that we were able to specifically identify the amount of demand for each firm (i.e. only the actual financing need of large firms was included, and was not "grossed up" in any way).

B. New Project Demand

The demand for funds to finance new projects identified during the interviews was increased in proportion to the relationship that the number of firms surveyed bore to the total number of productive firms in the Haitian private sector. (32 sampled firms vs. 225 firms in the total population, or 14.22%). The resulting estimate of the total demand of all productive businesses for new project financing was then reduced by 50% to reflect the

team's belief that many of the firms in our sample were roughly twice as likely to undertake new ventures as the "typical" Haitian business owner or operator. It is important to note that these new project loan demand figures had previously been weighted by the survey team to reflect the probability of any project concept reaching the financing stage during the next three years, and to reflect the survey team's judgement as to the ability of the borrower and project to qualify for DFC funding. The final weighting of 50%, mentioned above, makes a conservative estimate still more conservative. The estimated total 3-year loan need appears by sector and purpose below:

	TOTAL	AGRO-INDUSTRIAL	MANUFACTURE	ASSEMBLY	NEW PROJECTS
Estimated Loan Need ($000)	$7,626	$731	$2,264	$3,608	$1,023

C. Ten Year Demand Projections

The market survey loan demand data provided an estimate of the current existing need for loan term funds during the year 1983 through 1985. To develop a forecast of annual term loan need during the ten year forecast period, the quantitative survey results were used in conjunction with the qualitative findings of the survey team and indices of historical growth in private sector credit. It is important to emphasize that the three year need estimates based on our survey represent in part the need existing in 1982 for funds during the years 1983 through 1985. A survey in 1983 would reveal a separate stream of three year loan demand exclusive of the demand identified in 1982. Therefore, it was necessary to convert our survey results into estimated recurrent loan demand. An average of the three year demand was used for the base year (1982). The base year demand was updated at an annual rate of 16.16% to reflect real loan demand growth of 5.6% (the 1975-1981 historical real growth in total credit to the private sector)* and an assumed inflation rate of 10% per annum.

* Government actions to restrain credit growth after 1979 had a significant impact on real credit growth. Therefore, this 5-year average growth rate may be an understatement of that in more normal times.

Recurrent vs. "Pent-Up" Demand

In the third year, our demand figure was decreased by 15% based on the assumption that 15% of the survey-identified demand was "pent-up" demand for term funds previously unavailable. During the DFC's first three years of operations it is anticipated that much of this pent-up demand will have been served, and therefore only 85% of the base year demand will be recurrent after year three.

Allowing for Demand for Funds From Other Sources

In addition to the demand of exsiting businesses for term credit for expansion and new projects, the DFC will also serve the credit needs of new entrepreneurs who are not currently in business. Though no quantitative estimation procedure could accurately measure this potential demand, it is a segment that is of potential importance to the DFC as a development oriented lender. To incorporate this unmeasurable demand, each of the annual demand figures were increased by 10% - a subjective estimate of the survey team. The final annual demand estimates appear below:

Annual demand needs for DFC funds
($000s)

Year									
1	2	3	4	5	6	7	8	9	10
3,242	3,773	4,382	4,327	5,027	5,839	6,738	7,878	9,152	10,630

The Institutional Constraints

While the annual lending volume of the DFC will ultimately be determined by the demand for term loans from qualifying borrowers, the DFC's lending will be limited in the early years by the institution's loan appraisal and servicing

capabilities. The level of this "institutional constraint" is determined by the size of the DFC's staff, the number of loan appraisals each analyst can complete once they are operating at full efficiency, the rapidity with which each new analyst attains full efficiency, and the size of the average loan disbursed in each year.

The assumptions used in our estimate of the DFC's ability to move loans appears below:

> The staff of loan evaluation officers will increase from one chief officer in the first year to three officers in the fourth year. This gradual build-up in staff will provide time for the institution to develop appropriate application screening and evaluation procedures and test the applicability of the DFC's lending policies.
>
> Each new officer operates at approximately 1/2 of top efficiency in their first year and 3/4 efficiency in their second year. This "learning-curve" traversed by each analyst allows a total of two years for the new hires to become thoroughly familiar with the DFC's policies and procedures and the Haitian business environment.
>
> During the first year, one fourth of all the applications received by the DFC will become disbursements, increasing to one third of all applications in the third year. An increasing acceptance ratio was deemed realistic because the DFC should have a relatively large pool of applications to select from in the first few years due to the pent-up demand for term funds. However, as a new institution the DFC is likely to be relatively risk adverse until it has gained some experience lending in the Haitian business environment.

The real average loan size (before adjustment for inflation) will decline in the first three years. This assumption is consistent with the approval ratio discussed above. The DFC will have a large pool of applications to select from in the early years, and will likely select the best credit risks who typically have larger needs - until the staff has gained some experience.

These assumptions translate into the maximum dollar disbursement figures below:*

Institutional Constraint

Annual Maximum Loan $ Disbursed ($000s)

Year									
1	2	3	4	5	6	7	8	9	10
630	2,060	3,548	4,844	5,866	6,601	7,237	7,998	8,794	9,675

Annual Loans made by the DFC (Final Projections)

Our final estimate of annual loans made by the DFC is the lower of the market demand for funds or the institutional constraint in each year. During years 1 through 3, the DFC is unable to meet the total demand for term funds, in years, 3 through 8, the market demand is the binding constraint. In year 9 and 10, the loan volume capacity of the DFC analyst staff falls just short of market demands. A reappraisal of future demand in year 8 or 9 will help the DFC determine whether a new analyst could be justified in these years.

* Disbursements lag the commencement of loan appraisal by six months.

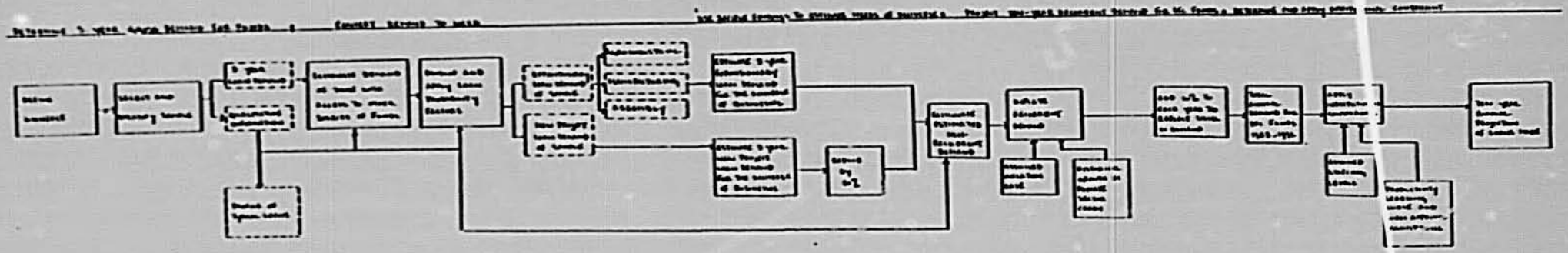
FINAL PROJECTIONS

Loans Disbursed by DFC ($000)

Year	1	2	3	4	5	6	7	8	9	10
Loans	630	2060	3548	4327	5027	5839	6783	7878	8794	9675
	Institutional Constraint			Market Constraint					Institutional Constraint	
Shortfall* (excess)	2618	1713	834	(516)	(839)	(762)	(484)	(120)	358	955

* Demand less DFC lending ability.

LOAN VOLUME PROJECTION METHODOLOGY



BEST AVAILABLE DOCUMENT

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