PD-AAQ-552 42

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: A (A = Add, C = Change, D = Delete)

Amendment Number: ISN 37815

DOCUMENT CODE: 3

2. COUNTRY/ENTITY: Caribbean Regional

3. PROJECT NUMBER: 940.0002.41

4. BUREAU/OFFICE: AID/PRE/I

5. PROJECT TITLE (maximum 40 characters): Caribbean Basin Corporation

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 09 DD 30 YY 86

7. ESTIMATED DATE OF OBLIGATION (Under 'B.' below, enter 1, 2, 3, or 4)

A. Initial FY 84 — B. Quarter 4 — C. Final FY 85

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

A. FUNDING SOURCE	FIRST FY B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total	1,200			2,500		
(Grant)	( )	( )	( )	( )	( )	( )
(Loan)	(1,200)	( )	( )	( )	( )	( )
Other U.S. 1.						
Other U.S. 2.						
Host Country						
Other Donor(s) Pvt. Investors	1,200	2,400		2,500	5,000	
TOTALS				5,000	5,000	10,000

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	C. 2. Loan	D. OBLIGATIONS TO DATE 1. Grant	D. 2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	E. 2. Loan	F. LIFE OF PROJECT 1. Grant	F. 2. Loan
(1) 106	SDA		L		0		1,200		1,200
(2) 103	ARDN		L		0		1,300		1,300
(3)									
(4)									
TOTALS							2,500		2,500

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

11. SECONDARY PURPOSE CODE

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

A. Code

B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

To help capitalize a privately owned and managed venture capital fund for the Caribbean region. Fund will offer debt and equity financing to eligible small- and medium-sized businesses in the Caribbean.

14. SCHEDULED EVALUATIONS

Interim MM YY MM YY — Final MM YY

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.)

This document contains confidential information and should not be released without the express written permission of the Bureau for Private Enterprise.

Activo

17. APPROVED BY

Signature

Title

Date Signed MM DD YY

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

MM DD YY

AID 1330-4 (8-79)

INVESTMENT PROPOSAL

CARIBBEAN BASIN CORPORATION

$2,500,000 Loan

Project No. 940-0002.41

Bureau for Private Enterprise

Agency for International Development

September 7, 1984

2

TABLE OF CONTENTS

3

ANNEX I
PROFILE OF CARIBBEAN BASIN CORPORATION ("CBC")

ANNEX II
ILLUSTRATIVE "CBC" INVESTMENTS

ANNEX III
RESUMES OF CBC MANAGEMENT

ANNEX IV
CBC SHAREHOLDERS

ANNEX V
CARIBBEAN BASIN CORPORATION FUNDING SOURCES

ANNEX VI
ILLUSTRATIVE PROJECTS TO BE FUNDED BY CBIC

ANNEX VII
CBIC - MONTHLY OPERATING BUDGET

ANNEX VIII
I.O.P. APPROVAL MEMO

ANNEX IX
CONGRESSIONAL NOTIFICATION

ANNEX X
ENVIRONMENTAL THRESHOLD DECISION

ANNEX XI
STATUTORY CHECKLIST (TO BE SUPPLIED)

ANNEX XII
DRAFT ACTION MEMO (   )

ANNEX XIII
DRAFT AUTHORIZATION (TO BE SUPPLIED)

CHAPTER I

SUMMARY

A. Project Description

The project proposed here is a US$2.5 million matching loan to a U.S. venture capital company which would promote the establishment or expansion of small private businesses in the Caribbean Basin. Its contribution to such businesses would include project origination and development, financial packaging, debt and equity funding, and management and marketing assistance. Thus, its role would be an active entrepreneurial one, in contrast to development banks and other more passive funding intermediaries already supported by A.I.D.: it is expected that Caribbean Basin Corporation ("CBC"), the project sponsor and manager, will be the originating promoter of most of the small business investments funded under this project.

AID/PRE is proposing a loan totaling $2.5 million to CBIC, Ltd., an offshore affiliate of CBC. The AID/PRE loan would be matched by an equal or greater amount of equity contributed to

CBIC by CBC and other investors. Small amounts of the AID/PRE loan to CBIC could be used for project development purposes (feasibility investigations, financial packaging, etc.); the bulk of the funds would be invested in the subproject businesses, in the areas of agriculture, health, or nontraditional exports.

"Satellite farming" ventures will receive particular priority in the selection of investments under this project. In a satellite farming operation, a substantial portion of the crop is grown by small independent farmers, for whom "nucleus estate" serves as a source of training, inputs (seed, fertilizer, etc.), credit, quality control, packaging, and/or marketing. This preference for satellite farming stems from the fact that such a structure generates greater economic and entrepreneurial opportunities for small farmers than occur when all growing is done by hired labor on a centrally-owned estate.

B. Project Purpose

The purpose of the project is to mobilize the financial and managerial resources of U.S. venture capitalists in the promotion of several (perhaps 5 - 10) new or expanding small businesses. These businesses are intended to generate a combination of the following developmental benefits for their host countries:

1. Employment.

2. Additional foreign exchange.

3. Technology transfer and training.

4. Economic opportunities and extension services for satellite farmers and other small independent suppliers.

A.I.D. will retain the right to approve each CBIC investment in advance, based on its specific development impact.

To the extent that a venture capital business is an unusual vehicle for A.I.D. support to small enterprises, this project may yield useful lessons about the possibilities and problems of such an approach.

C. Sponsors and Management

CBC, the sponsor and manager of this project, is a new venture capital business formed in 1982. Certain of its principals are associated with Louis Marx, Jr., a prominent and successful New York venture capitalist. While most members of the CBC management team may not have extensive track records in the venture capital business as strictly defined, they do appear to have a sound business and personal background, and good contacts within the venture capital community.

Although CBC has made no investments yet, it has developed a substantial portfolio of possible investments in various stages of completion.

D. Financial Structure

The US$2.5 million loan would carry interest at about 13.4 percent. Since CBC's investments may not yield substantial cash flows in early years, retirement of the A.I.D. loan may be deferred until the fifth year, at which time all principal and accrued interest will be repaid in a single balloon payment. To accomplish this repayment, CBIC will have to refinance all or part of its portfolio with commercial sources.

All amounts drawn under the A.I.D. loan will be matched by, and senior to, equal amounts (at least) of private equity investment in CBIC. This structure provides some degree of protection for A.I.D.'s funds, although it remains obvious that the proposed loan entails a substantial level of risk.

The terms of the loan will assure that private investment in the subproject enterprises will be at least three times the amount of A.I.D. loan funds used for the subproject.

CHAPTER II

DESCRIPTION OF THE PROJECT

A. Sponsors, Management

Caribbean Basin Corporation (CBC) is a Delaware corporation whose principal business objective is to identify, promote, and invest in new or expanding small business opportunities in the Caribbean Basin region. The company, which is described more fully in Annex I, is a new one. Its activities to date, although substantial, have been conducted largely on a part-time basis. Many of its policies and procedures are only informally defined. Therefore, PRE approval of an explicit statement of operating procedures and investment policy will be required prior to any disbursement of loan funds.

The central operational issue -- definition of management responsibilities and time commitments -- has been laid out in advance. CBC/CBIC will have the full-time or nearly full-time services of:

-- a Chairman/C.E.O. (Jack E. McGregor);

-- a Financial Vice President (to be hired);

- a Manager for Project Development (to be hired);
- a Managing Director (J. K. Holman), handling government relations;
- a Vice President for Agricultural Projects (Douglas A. MacFarlane).

Half-time services will be provided by:

- CBC's President (Joseph W. Barnett, Jr.);
- a Project Consultant (Lawrence A. Marinelli);
- a Project Analyst (Spencer Kellogg).

A more detailed specification of the responsibilities of these individuals is contained in Annex II. Annex III provides biographical data on them.

Of the company's personnel, only Barnett, CBC's president, appears to have had extensive experience in the venture capital business (narrowly defined). But an examination of the business and personal background of the others lends some degree of confidence in their chances of carrying out this venture successfully.

The shareholders of CBC include its executive management and the Noel Fund (cf. Annex IV). The Noel Fund is an affiliate of The Prospect Group, Incorporated, a diversified venture capital company with assets of approximately $16 million and a net worth of approximately $10 million. Additionally, The Prospect Group has recently raised over $15 million in a private placement. The Prospect Group has indicated its interest in participating in project financing for ventures developed by CBC. The Noel Fund and the Prospect Group are controlled by Louis Marx, Jr., a prominent and successful New York venture capitalist. Peter Banker, a CBC director, is a long-time associate of Marx and Vice Chairman of the Prospect Group. Marx's funds have also invested a total of $1.5 million in International Water Resources, a previous venture of McGregor and Holman. Barnett has done deals with Marx. Both Barnett and McGregor have good contacts in various venture capital entities, investment banks, and commercial banks headquartered in New York and elsewhere.

This linkage with the U.S. venture capital community is an important element of the project. It provides the justification -- to the extent that one is needed -- for dealing with a U.S.-owned rather than an LDC-owned intermediary. The precise point of the project is to enlist entrepreneurial, managerial, and financial resources from a segment of the U.S. venture capital community in support of small business development in the Caribbean (an area of investment which otherwise tend to be beyond the ken of American venture capitalists).

Resources committed thus far to CBC include $150,000 in cash and $400,000 in unreimbursed services. CBC has generated an additional $400,000 in fees and reimbursable grants, largely from OPIC (Overseas Private Investment Corporation) and TDP (U.S. Trade and Development Program). Annex V provides details.

B. Illustrative Investments

Since its founding in 1982, the activities of CBC to date have consisted of project development work on about 20 potential investments, including feasibility studies and preliminary investment negotiations.

CBC management has identified several of the more promising deals as illustrative potential subprojects under the A.I.D. loan:

1. Macadamia nut planting in Costa Rica.

2. Harvest, freezing, and export of lobster and conch in Grenada.

3. Cultivation and export of flowers in Dominica.

4. Growing, packing, grading, and export of winter vegetables in Jamaica.

5. Production and processing of passion fruit in Costa Rica or Dominica.

6. A food processing plant in Grenada.

Annex VI provides details on these potential investments (though it should not be regarded as a complete or definitive list of deals in which CBIC will actually invest). Two other deals described in Annex VI would probably not qualify for the use of PRE funds (a minerals project in St. Lucia and a water project in Dominica, both of which would be part government-owned).

Based on discussions of details of several of these subprojects with CBC management, PRE staff is satisfied that they represent serious investment possibilities which are being professionally pursued. Of particular interest to PRE is the fact that a significant number of these potential subprojects appear to contain a substantial satellite farming component, where a nucleus estate provides inputs, training, packaging and/or marketing for small independent farmers.

For instance, the Grenada lobster and conch venture would provide training and a market for 500-600 small fishermen. The Dominica floriculture venture and the passion fruit venture in Dominica and/or Costa Rica would draw large percentages of their production from family-size farms.

Each investment by CBIC must be reviewed and approved in advance by A.I.D., based on anticipated development impact (cf. Chapter IV). Specific legal restrictions applicable to all CBIC investments are set for at p. III-2 below. It is possible that CBIC may on occasion approach A.I.D. for a waiver of one or another of these restrictions in the case of a subproject investment which entails a particularly strong development benefit.

CBC/CBIC will consult with the local USAID mission or representative prior to any investment. The Mission will not be required to approve each investment. One of the subjects explored in these consultations will be the possible policy dialogue implications of the proposed investment.

C. Financial Structure

A $2.5 million loan is proposed for this project. Of this amount, it is anticipated that $1.2 million in Selected Development Activities funds will be available for FY 1984 obligation; the remaining $1.3 million could be obligated in FY 1985, probably from the Agriculture, Rural Development and Nutrition account.

The A.I.D. funds would be lent to CBIC, Ltd., a CBC affiliate which will be domiciled in Panama. A.I.D.'s loan to CBIC would be matched at least dollar for dollar by equity infusions from CBC and other private investors. From A.I.D.'s perspective, this matching equity infusion serves two purposes. To begin with, it cushions the risk on the repayment of the A.I.D. loan, since the loan would be imperilled only after the equity funds have been lost. Secondly, since A.I.D. will not be reviewing in advance the commercial merits of each subproject, the matching equity infusion will provide some assurance that CBIC's funds are invested carefully.

Minor amounts of CBIC funds could be used for project development purposes; but the bulk of its assets would be committed to direct investments (debt or equity) in small new or expanding businesses. Since CBIC's investment will be no more than 50% of the capitalization of any subproject, A.I.D. will have attained a leverage of 3:1 or more on its funds.

CBC, like any other venture capital operation, will face the problem that most of its investments will be able to yield little or no cash return in their earlier years; thus, deferral of principal and interest repayments on the A.I.D. loan is desirable. On the other hand, because infusions into PRE's Revolving Fund will probably cease after FY 1986, PRE is anxious to accelerate repayments of its loans after that point. In order to accommodate the needs of both parties, the loan to CBIC would be structured with a single balloon repayment of all principal and interest at the end of year five.

In order to accomplish such a balloon repayment, CBC would have to turn to commercial sources to refinance the A.I.D. loan after the fifth year. By that time CBC's portfolio should have enough of a track record to permit such commercial refinancing. The interest rate during the 5 years will be approximately 1/2% over the market yield on 5-year Treasury Notes at the time of loan signing. (Five-year Treasury maturities were trading at 12.9% as of September 5, 1984.) Should CBC fail to have the A.I.D. loan repaid on schedule, the interest rate will automatically increase to 6% over prime on floating basis. This rate, in addition to all the other legal remedies available to A.I.D., will reinforce CBC's incentive to accomplish the necessary refinancing.

To the extent that CBIC receives substantial revenues from its subprojects in the first 5 years, the need for deferral of repayment of the A.I.D. loan would be correspondingly reduced. Accordingly, CBIC will use any revenues beyond $150,000 per year (cumulative) to prepay the A.I.D. loan. This $150,000 annual exclusion represents a partial allowance for operating expenses (estimated at $30,000 per month -- cf. Annex VII). CBIC will distribute no dividends while the A.I.D. loan is outstanding.

The A.I.D. loan funds (as well as the matching private equity subscriptions) will be drawn down into CBIC only as needed for individual subprojects. CBIC will expect to draw down the full amount of the A.I.D. loan within 2 years of loan signing.

D. <u>Project Status and Implementation Schedule</u>

This project was notified to Congress on July 30, 1984 (cf Annex IX). A staffer for the House Appropriations Committee placed a hold on the project pending receipt of further information; the requested information has been provided and the hold has been released.

A Loan Agreement for the initial $1.2 million is in the process of negotiation, subject to the results of the review of this Investment Proposal. Assuming a favorable review, Authorization of the project and signing of the loan agreement are expected prior to September 30, 1984. By November 30, 1984, CBC will have recruited a Vice President for Finance, and a Manager for Project Development (cf. Annex II). By the same date, CBIC and AID/PRE will have agreed on a Statement of Operating Procedures and Investment Policies and CBIC will have been incorporated in Panama. Satisfaction of other conditions precedent must occur no later than March 30, 1985, (though it is expected that these matters will be concluded earlier than that date).

Obligation of an additional $1.3 million in loan funds is expected shortly after PRE receives its 1985 budget allocations, perhaps in January, 1985.

Of the total $2.5 million loan, the first half is expected to be drawn and invested by March 30, 1986, with the remainder drawn and invested by September 30, 1986 (eighteen and twenty four months, respectively, from project signing).

As discussed later in this paper, project progress will be reviewed every six months from the date of initial obligation, with interim evaluations conducted after the disbursement of the first $1 million, and again after the second $1 million. Continued disbursements will be dependent on the outcome of these interim evaluations. Repayment of the loan is expected by September 30, 1989, with a final evaluation to be scheduled thereafter.

CHAPTER III

LOAN TERMS AND CONDITIONS

BORROWER	:	Caribbean Basin International Corp.
AMOUNT	:	US$2.5 million ($1.2 million to be obligated in FY 1984, the remainder thereafter).
INSTRUMENT	:	Senior debt
TENOR	:	Five years, with balloon repayment of principal and all interest.
INTEREST RATE	:	1/2% over market yield on Treasury notes of 5-year maturity at time of signing, compounded quarterly. If loan is not repaid when due, interest will automatically increase to Citibank prime plus 6% compounded quarterly.
DISBURSEMENT	:	As necessary to fund 50% of CBIC investments in subprojects.
PROJECT DEVELOPMENT COSTS	:	Subject to a cumulative maximum disbursement of US$100,000, loan funds may be down for 50 percent of approved project development costs (satellite farming projects only).
MATCHING	:	Each disbursement of the PRE loan to CBIC must be matched at least 1-for-1 by a cash infusion of private equity or subordinated debt into CBIC.
DISBURSEMENT SCHEDULE	:	At least US$1.25 million of the PRE loan will be drawn down within 18 months of loan signing, and a

total of US$2.5 million drawn down within 24 months of loan signing.

COMMITMENT FEE : At 18 and 24 months, CBIC will be liable for a fee of 1% p.a. from the time of loan signing on any amounts by which they fall short of the disbursement schedule. As to undrawn amounts for which this fee has been charged, either party may elect to reduce the outstanding loan commitment by such amounts; if neither party so elects, undrawn portions of such amounts will continue to accrue fees at 1% p.a., payable quarterly. CBIC's obligation to pay these fees must be secured by an unconditional guaranty of payment by a financially responsible party.

QUALIFYING INVESTMENTS:

- Located in AID-assisted country in Latin America or Caribbean;
- New business or expansion of existing business;
- Minimum of 25% local equity (portfolio average must no less than 40% local equity);
- No local government or para-statal equity;
- No net displacement of labor;
- Net fixed assets, exclusive of land and buildings, below US$1.0 million;
- Agriculture, health, nontraditional export with significant local value added, or other AID-approved industry.

V

- A.I.D. loan funds to constitute no more than 1/2 of CBIC's participation in the investment.

- A.I.D. loan funds to constitute no more than US$500,000 of the investment.

- CBIC participation matched at least 1-for-1 by other private cash capitalization.

- A.I.D. advance approval of anticipated development impact.

CONDITIONS PRECEDENT TO DISBURSEMENTS : A.I.D. approval of a Statement of Operating and Investment Policy; satisfactory evidence that matching requirements have been met, and that the proposed subproject is a qualifying investment; standard CP's, including legal opinion, corporate authority, etc; execution of commitment fee guaranty; issuance of all necessary A.I.D. environmental clearances; other CP's to be negotiated.

A.I.D. PORTFOLIO REVIEWS : After the disbursement of the first $1 million of loan funds, and again after disbursement of the second $1 million, A.I.D. will review the CBIC portfolio from the vantage of the portfolio's financial profile and its effectiveness in promoting significant developmental benefits, including employment, foreign exchange, economic opportunities for small suppliers, and technology transfer. (CBIC's success in developing satellite farming investments will be a specific focus.) Continued disbursements of funds will be conditioned on the results of such reviews being satisfactory to A.I.D.

COVENANTS :

- Semi-annual personal certification by management that CBIC is in substantial compliance with loan agreement;
- A.I.D. approval will be required for any CBIC borrowings or other obligations;
- CBC/CBIC consultation with local USAID in advance of each investment.
- Semi-annual reports to AID including financial condition of CBIC, financial condition and development impact of subprojects, and (after first 2 years) management's plan for retiring A.I.D. debt;
- CBIC revenues in excess of $150,000/year (cumulative) will be used to prepay the A.I.D. loan.
- No dividend to CBIC shareholders until A.I.D. loan is repaid;
- Compliance with A.I.D.-approved Statement of Operating and Investment Policy.
- CBIC will exert its best efforts to maximize the following aspects of its investments:
  - -- direct and indirect job creation;
  - -- net foreign exchange generation;
  - -- provision of training, inputs, markets, and other economic opportunities for

"satellite farmers" or other small independent suppliers; and

-- transfer of skills and technology.

CHAPTER IV

ANTICIPATED DEVELOPMENT IMPACT

A. Need For The Project

Given the range of countries in which CBIC funds may be invested (all the countries eligible for A.I.D. assistance in the Caribbean and perhaps elsewhere in Latin America as well), it would be impractical to review each Mission's CDSS here. However, it is a reasonable generalization to say that most of the countries in which CBIC might invest are characterized by the following:

-- High unemployment.

-- Shortage of medium-term, high risk capital (especially equity capital for new and nontraditional ventures).

-- Balance of payments deficits ranging from moderate to severe.

-- A need for assistance in business planning, financial packaging, technology transfer, and international marketing.

In concept, the project is responsive to all the above needs. Of course, the project's development impact in these respects is dependent on its commercial success, as well as on the specific profile of its eventual subproject investments.

A.I.D. has already funded several other financial institutions in the Caribbean Basin and elsewhere in Latin America which provide funding for agricultural and other small development projects in the area (e.g. LAAD, Caribbean Financial Services Corporation, etc.). Generally speaking, these institutions provide debt financing, and, to a lesser extent, some equity participation and management assistance, at the request of client businesses. CBC/CBIC will differ significantly from these existing projects in that it will typically assume a much more active role in project development, packaging, and management. In particular, it will often shoulder a large part of the responsibility for establishing marketing channels for its investee businesses. As a venture capital operation rather than a development bank, this project will not duplicate existing A.I.D. efforts.

The experience of A.I.D.-sponsored development banks is that a shortage of funds is often less acute than the shortage of well-developed, commercially viable projects. Thus, a major contribution expected from CBC/CBIC is the development and financial packaging of ventures, rather than a mere passive transfer of A.I.D. loan funds to pre-existing enterprises.

(With the exception of the Grenada lobster venture, CBC has been the originating sponsor for each of the subproject opportunities identified in Annex VI.)

Viewed from this perspective, the project is a suitable candidate for PRE's Private Sector Revolving Fund, one of whose objectives is to explore innovative mechanisms for involving private sector resources in the development effort. At the same time, it must be recognized that such innovation may involve a corresponding degree of risk.

Speaking a bit more loosely, another "need" to be addressed by this project lies in the fact that there are few linkages between the thriving U.S. venture capital marketplace and small business opportunities in the Caribbean . Thus, this project is a modest attempt, admittedly experimental, to establish such a linkage, mobilizing the entrepreneurial, managerial, and financial resources of American venture capitalists in support of LDC small business development. In this respect the effort is obviously consonant with a major goal of the Caribbean Basin Initiative.

B. Specific Development Goals

As indicated in the previous section, CBIC's investments will be focused on new or expanding small businesses, with substantial local ownership, in the areas of agriculture, health, or nontraditional exports with significant value added.

The projects goals to be achieved through promotion of such small businesses include generation of foreign exchange, employment, technology transfer, and economic opportunities for small (satellite) farmers or other non-employee suppliers.

Employment Generation. CBC has indicated that it would be comfortable with a target of 500 full-time equivalent jobs created through the investments funded under this loan (i.e., one job created for every US$5,000 of A.I.D. loan funds drawn). Even though such a ratio would represent an average, for instance, in World Bank projects, nonetheless it is not a particularly ambitious target. PRE has indicated to the sponsors that it hopes that actual number of jobs created will be substantially higher than this target. At the same time, the sponsors are understandably reluctant to promise a more aggressive ratio at this stage, when there is no way of knowing what CBIC's actual investments will be.

Foreign Exchange Generation. The sponsors expect that net positive foreign exchange cumulative through the year each subproject becomes fully operational will exceed, on the average, US$16 for every US$1 of A.I.D. funds invested during the same period.

Technology Transfer. Several of the subproject investments ought to entail a significant transfer of production or processing technology to the host country. The illustrative potential investments detailed in Annex VI provide examples. The lobster and conch venture in Grenada would introduce new and more efficient techniques for harvesting seafood. More sophisticated methods of growing and packaging would be transferred in the Jamaica winter vegetables business. The processing technology for specialty foods being considered for Grenada would automatically create a new market for higher-value-added crops on local farms. However, it would appear to be impossible meaningfully to quantify targets for this aspect of the project in advance.

Training The development of any new business inevitably entails some degree of training for local employees and management. While such skill development is expected to be a meaningful benefit from this project, it is difficult to specify or quantify it in advance of having detailed business plans laid out for actual investments.

Satellite Farming. A particularly high priority for CBIC's investments will be the creation of economic opportunities for satellite farmers or other small independent suppliers. In a typical satellite farming arrangement, a substantial portion of the throughput of the "nucleus" business comes from production by smaller, independent growers. To support its outside suppliers, the nucleus company will provide some combination of production training, inputs (seed, fertilizer, etc.), credit, quality control, packaging, and/or marketing, depending on appropriateness and practicability. The nucleus estate will often serve as a "demonstration unit" for growing methods. The attraction from the independent farmer's point of view is that the productiveness of his land and labor are upgraded, and he tends to capture a much higher share of the total value added than he would as an employee of a large nucleus estate, for instance. The advantage of a satellite arrangement from the perspective of the nucleus company is that it avoids the capital burden and political risk of ownership of all the land from which it draws production.

To provide sanction for the achievement of these goals, continued disbursement of the loan after the first and again after the second $1 million will be contingent on A.I.D. reviews of the project sponsors' success in meeting such goals in their previous investments. Clearly, it is not realistic to expect that every CBIC investment will be a stellar performer with respect to every one of the goals articulated above. Rather, A.I.D. will review the investments on an overall portfolio basis, recognizing that weak results on one development indicator may be outweighed by particularly strong results on another, and vice versa.

C. The Four Pillars

It must be recognized that a heavy policy dialogue impact is unlikely, although efforts will be made to explore the policy dialogue potential of each subproject as it develops.

The private sector thrust of the project is obvious.

Substantial technology transfer would be entailed in the establishment and operation of the new businesses, especially in the case of the satellite farming investments, where smaller farmers will receive training in new agricultural methods.

Two sorts of "institution building" would occur. The individual businesses which result from CBC's activities will, if they are successful, make continuing contributions to the economy and development of the region long after all A.I.D. concessional input has ended. And CBC itself, if its venture capital activities are successful with A.I.D. support in its initial years, may continue its activities of new business development into the indefinite future.

V. RESOLUTION OF I.O.P. ISSUES

The issues raised at the August 6, 1984 I.O.P. meeting on this project are laid out in the I.O.P. approval memorandum attached as Annex VIII. Resolution of these issues is indicated below:

-- Controls were to be placed on CBIC's disposal of cash receipts accruing to CBIC before the repayment of the A.I.D. loan. This will be effected by a prohibition on dividends from CBIC, and a requirement that all CBIC receipts over $150,000 per year be used to prepay the loan (cf. pp. II-6 and III-4).

-- A potential cofinancing arrangement with other private investors was discussed at the I.O.P. meeting. Negotiations in this respect are continuing, although their outcome is still in question. However, obligation of the project presented here need not await the outcome of those negotiations. The basic result of the cofinancing under consideration would be to provide a vehicle through which the repayment of the A.I.D. loan could be accelerated. Further discussion here of the proposed arrangement is precluded by considerations of confidentiality.

-- As agreed at the I.O.P. meeting, the loan agreement will preclude the use of A.I.D. funds in subprojects with parastatal equity participation (cf. p. III-2).

-- With respect to targets for generation of employment and foreign exchange, it is PRE's judgment that project goals would be most effectively served by a "best-efforts" understanding in the loan agreement (with the sanction of periodic performance reviews), rather than by a specific legal requirement fixed in advance. See page IV-3 for a statement of targets in this respect.

An August 8, 1984 meeting of PRE's outside Loan Review Board raised concerns about a clearly-defined management team for CBC and a statement of operating costs. Annexes II, III, and VII respond to these concerns.

VI. REPORTING REQUIREMENTS

A. Pre-Investment Reporting

At the time CBC draws down on the loan for investment in each subproject, it will submit the following information to the AID/PRE Project Officer:

1. A description of the investment, including a detailed indication of how the investment complies with the requirements and objectives set forth in the Loan Agreement.

2. A *pro forma* schedule of the investment's anticipated net effect on the host country's balance of payments, including imported inputs, export sales, identifiable import substitution, and net financial flows.

3. A schedule indicating the investment's projected net employment effect, broken out by skill and compensation levels.

4. A description of the investment's anticipated forward/backward linkages to other local enterprises, including especially the extent to which production is accomplished through small independent farmers or other entrepreneurs. In the case of satellite farming projects, a description of:

   - The size of the satellite farming component (absolute size and percent of total production);
   - Number of satellite farmers;
   - Their average size;
   - Their average anticipated income from the project;
   - Details of any inputs/services provided to satellite farmers (e.g. training, seed, fertilizer, credit, packing, quality control, marketing).

5. A description of anticipated transfers of technology, and skills, including training of employees or independent suppliers.

6. An appropriate selection of the documentation relied upon in CBC's investment decision (e.g. financial statements and projections, feasibility studies, etc.).

B. Semiannual Reporting And Consultations

CBC management will furnish the following information to the AID/PRE Project Officer within 45 days of the conclusion of the first semester of each fiscal year:

1. Footnoted, unaudited financial statements for CBC/CBIC certified by management.

2. A narrative summary of operational progress of CBC/CBIC and their investee companies.

Within 60 days of the conclusion of each fiscal year, the Project Officer will receive from management the following information:

1. Audited financial statements for CBC/CBIC.

2. A narrative summary of operational progress of CBC/CBIC.

3. A description of operational progress for each investee company, including key financial and operational developments, as well as specific indications of progress in meeting the goals set forth in items 2 through 5 of Section A above.

4. After the second year, a statement of CBC/CBIC management's plan for refinancing the AID/PRE loan when it falls due.

CBC/CBIC will arrange a semiannual meeting with AID/PRE personnel in Washington to review the above information and to deal with any other issues which may arise in the course of the project.

VII. MONITORING AND EVALUATION

A. Monitoring

In general, the monitoring and administration of this project will follow the procedures outlined in Section 5.4 of the PRE Revolving Fund Operating Manual.

In addition to the semiannual meeting referred to in the preceding section, a fuller interim review will be conducted after the disbursement of the first $1 million and again after the second $1 million. Continuation of the project would be contingent on the results of these reviews (cf. IV-3). They would be based primarily on management reports and (to the extent that staff time and/or funds permit) site visits. These reviews would focus on the following issues:

-- CBC/CBIC's ability to generate enough commercially sound investments to keep abreast of the disbursement schedule.

-- Compliance with Loan Agreement Terms.

-- Success in implementing the initial investments.

-- Present and projected performance of the portfolio in achieving development goals discussed earlier in this paper, including employmemnt, foreign exchange, backward linkages (especially satellite farming), and technology transfer.

-- the degree to which the PRE loan has affected CBC/CBIC's ability to raise other funds, or to consummate particular investments.

B. Final Evaluation

At the end of the five-year loan period, an end-of-project loan evaluation will be conducted to determine the project's sustainability, and whether it is a viable and replicable alternative to AID's more traditional loans to development banks.

An integral part of this evaluation will be a determination of the extent to which the project has met the various goals described in this Investment Proposal.

Funding for this evaluation will be provided from the Project Development and Support account. PRE/PPR anticipates that the evaluation would occupy the time of three or four persons for an estimated four weeks.

CARIBBEAN BASIN CORPORATION

3/27/84

The Company's Objectives

Caribbean Basin Corporation (CBC) was established in 1982 for the purpose of developing business opportunities in the Caribbean Basin.

The Company believes that President Reagan's Caribbean Basin Initiative, and its reliance on private sector initiatives, have improved the climate for commercial success in the region. CBC's initial emphasis has been placed on start-up ventures covering a wide range of industrial and agricultural projects.

Further to its ongoing project review, CBC is currently managing nine separate feasibility studies which will be completed during the course of 1984. From these, undertaken in association with various U.S. and foreign public and private entities, the Company will select especially viable projects for commercial implementation. CBC typically will arrange necessary financing, provide management services and retain significant equity positions in these operating affiliates. For a description of current feasibility studies, see pages 3 and 4.

In addition to the activities described above, the Company is engaged in the following businesses:

- providing U.S. government financing and other support services to U.S. and foreign businesses seeking to establish projects in the Caribbean;
- identifying commercial opportunities for established sources of venture capital;
- developing and managing its own venture capital fund;
- establishing a subsidiary to undertake feasibility studies for outside groups on a contract basis.

Description of the Company

CBC was incorporated on April 27, 1982, in the State of Delaware by Jack E. McGregor and Joseph W. Barnett, Jr. Current shareholders, in addition to Messrs. McGregor and Barnett, are The Noel Fund, controlled by Louis Marx, Jr., a New York City venture capitalist, J. K. Holman, Douglas A. MacFarlane and Lawrence A. Marinelli. Certain other individuals or entities have been granted options to become minority shareholders.

Board of Directors

Jack E. McGregor, Chairman, Bedford, New York
President, Hampton-Douglas Corp.
Chairman, International Water Resources, Ltd.

Joseph W. Barnett, Jr., Greenwich, Connecticut
Senior Partner, Badger, Fisher, Cohen & Barnett

Peter A. Banker, New York, New York
Vice Chairman, The Prospect Group

J. K. Holman, Washington, D.C.
President, International Water Resources, Ltd.

Officers

Jack E. McGregor
Chairman and Chief Executive Officer

Joseph W. Barnett, Jr.
President

Douglas A. MacFarlane
Vice President and Treasurer

Affiliated Companies

Caribbean Basin Aquaculture Corp.
Caribbean Basin Agribusiness Corp.
Caribbean Agri-Systems, Inc.
Caribbean Basin Countertrade Corp.

Principal Offices

Suite 510
1575 Eye Street, N.W.
Washington, DC 20005
(202)789-2444

49 West Putnam Avenue
Greenwich, CT 06830
(203)869-5900

Box 566
Village Green
Bedford, NY 10506
(914)234-9791

Route 2, Box 40
Centreville, MD 21617
(301)758-2139

Key Personnel

- Jack E. McGregor (Chairman). Formerly held senior executive positions in U.S. corporations, including chief operating officer of a significant oil company and chief legal officer of a major utility, and in both federal appointive and state elective public office. President, Hampton-Douglas Corp. and Chairman, International Water Resources. Bedford, New York.

- J. W. Barnett, Jr. (Director & President). Partner with Badger, Fisher, Cohen & Barnett, a Connecticut law firm, with emphasis upon new venture and real estate development. Officer and director in International Water Resources, Ltd. and Hampton-Douglas Corp. Greenwich, Connecticut.

- James K. Holman (Director). Formerly held executive management positions for twelve years with Continental Oil Company (Conoco), Consolidation Coal Company, and Commonwealth Oil Refining Company. President, International Water Resources and Director, New Fuels Corp. Washington, D.C.

- Peter A. Banker (Director). Formerly with Davis, Polk & Wardwell, has been associated for past fifteen years with Louis Marx Jr., New York venture capitalist, as Vice President, Pan Ocean Oil Corp., Chairman, Cliff Resources Corporation, Vice Chairman, International Water Resources, Vice Chairman, The Prospect Group Inc., and Vice President, Wood River Capital Corp. New York City.

- Douglas A. MacFarlane (Vice President, Agribusiness). From 1975 to present, headed successful farm management and agricultural consulting business, managing as much as 2,900 acres, and has advised corporations on agricultural investments in Caribbean nations.

- C. Howard Hardesty (Senior Adviser). Partner in the Washington law firm Corcoran, Hardesty, Whyte, Hemphill & Ligon, P.C. Formerly Vice Chairman of Conoco, and Chairman of Commonwealth Oil Refining Company. Director of Consolidated Natural Gas Company, NCR Corporation and Purolator, Inc. Washington, D.C.

- Lawrence A. Marinelli (Senior Consultant). Recently retired career foreign service officer with extensive experience in Third World economic development projects. Last assignment as Director, Caribbean Basin, U.S. Trade & Development Program. Washington, D.C.

- <u>Peter F. Schaefer</u> (Senior Consultant). A senior consultant to corporations with business operations in the Third World, to aid donating organizations on foreign assistance, to members of Congress on Asian affairs, and to LDC governments on foreign investments. President of Nimbus, Ltd. and Director, New Fuels Corp. Washington, D.C.

- <u>Duke R. Ligon</u> (Counsel). Partner in the Washington law firm of Corcoran, Hardesty, Whyte, Hemphill & Ligon, P.C. Formerly senior Washington partner in Bracewell & Patterson, and held a series of key energy positions in the Federal Energy Office, Department of the Treasury and Department of the Interior. Washington, D.C.

8/28/84

CBC/CBIC MANAGEMENT

1. Jack E. McGregor, New York

- CBC Chairman and C.E.O.
- CBIC Chairman and C.E.O.

Overall management responsibility, including:

a. project development and investment criteria for board approval;
b. securing management personnel;
c. procedures for project assignment, development and supervision;
d. investor relations;
e. government relations;
f. partner relations;
g. senior marketing and distribution relationships;
h. host country licenses, permits and incentives;
i. approval of budgets, business plans, investments;
j. affiliate subproject operations;
k. financial reporting, accounting;
l. oversight of operating affiliates.

Mr. McGregor also serves as Chairman and C.E.O. of International Water Resources, Ltd. (IWR) and its affiliate, Caribbean Water Resources (CWR). Both companies are related to CBC by common shareholders and business objectives. Mr. McGregor will devote at least 90% of his professional time to CBC/CBIC. Subsequent developments with respect to IWR/CWR could from time to time require up to 50% of Mr. McGregor's time. The activities of CWR may be folded directly into those of CBC.

2. Joseph W. Barnett, Jr., New York

- CBC President

Working closely with the Chairman in all matters, with primary responsibility for:

a. project identification and development;
b. investor relations;
c. marketing and distribution relations;
d. legal affairs;
e. investment recommendations;
f. project finance;
g. management communications.

Mr. Barnett is also a senior partner in the law firm Badger, Fisher, Cohen & Barnett, which serves as legal counsel to CBC. In his capacity as President of CBC, Mr. Barnett will devote 50% of his time to CBC/CBIC.

3. J. K. Holman, Washington

- CBC Director
- CBIC Director

Working closely with the Chairman and President, with primary responsibility for the Washington activities of CBC and CBIC, including:

a. U.S. Government relations;
b. multi-national agency relations;
c. host country and local partner relations;
d. project development supervision;
e. regulatory compliance.

Mr. Holman will continue to devote 90% of his professional time to CBC/CBIC. He also serves as President of IWR and CWR. Subsequent developments with respect to these companies may require a significant portion of Mr. Holman's time. The activities of IWR/CWR in Dominica and the Eastern Caribbean may be folded directly into those of CBC.

4. (Under active recruitment), New York or Washington

- CBC Vice President and Chief Financial Officer
- CBIC President and Chief Operating Officer

Working closely with executive management, with primary responsibility for:

a. financial analysis of projects;
b. investment recommendations;
c. project finance;
d. private/public offerings;
e. financial reporting system;
f. audits;
g. accounting;
h. invoicing;
i. relations with financial community;
j. regulatory reporting and compliance.

Full time.

5. Lawrence A. Marinelli, Washington

- CBC Vice President, Projects

Working closely with executive management, with primary responsibility for:

a. initial project assessment;
b. supervision of feasibility studies;
c. business plans;
d. investment recommendations;
e. government and other funding institutions.

Now committed to CBC for 50% of his professional time, Mr. Marinelli will be full time after February 1985.

6. Douglas A. MacFarlane, Centreville, Md.

- CBC Vice President, Agribusiness

Working with executive management, with responsibility for agricultural aspects of potential projects, including analyses of:

a. land suitability;
b. production techniques;
c. processing and packing;
d. quality control;
e. transportation modes and costs;
f. farm management.

Full time.

7. (Under active recruitment), New York and/or (?) Washington

- CBC Manager, Project Development

Working closely with Messrs. Holman and Marinelli, with responsibility for all aspects related to the development of assigned projects through implementation, including:

a. preparation and/or analysis of feasibility studies;
b. analysis of general business environment;
c. analysis of host country environment;
d. identification of potential local investors;
e. identification of project management;
f. development of business plans;

49

g. project implementation;
h. operations oversight.

8. <u>Spencer Kellogg, New York</u>

CBC Project Analyst

Working closely with the chief financial officer, will assist in the financial analysis of projects and the preparation of investment recommendations.

Mr. Kellogg will commit 50-100% of his time to CBC.

CBC SHAREHOLDERS

McGregor	27.5%
Barnett	27.5%
Prospect Group/Noel Fund	27.5%
Holman	10.0%
MacFarlane	2.5%
Marinelli	2.5%
Schaefer	2.5%
	100.0%

CARIBBEAN BASIN CORPORATION

FUNDING SOURCES

APRIL 1982 - AUGUST 1984

1. Cash

a.	Noel Fund (Louis Marx)	$ 50,000	
b.	Hampton-Douglas Corp. (Jack McGregor)	17,500	
c.	J. W. Barnett, Jr.	6,000	
d.	Caribbean AgriSystems (Douglas MacFarlane)	22,000	
e.	Caribbeana Council	53,846	
			$149,346

2. Fees & Reimbursable Grants

a.	U.S. Trade & Development Program (TDP)		
	(i) Dominica Floriculture	75,465	
	(ii) Jamaica Winter Vegetables	123,288	
	(iii) Eastern Caribbean Food Provisioning	20,740	
b.	Overseas Private Investment Corp. (OPIC)		
	(i) Grenada Food Processing	37,500	
c.	St. Kitts-Nevis/Republic of China		
	(i) St. Kitts Textiles	60,000	
d.	St. Vincent-Grenadines/Republic of China		
	(i) Pork Production	56,000	
e.	Republic of China		
	(i) Caribbean Transportation	35,000	
			407,993

3. Services*

a.	Prospect Group/C. F. O'Neil, Jr. (Marx)	25,000	
b.	Hampton-Douglas	145,000	
c.	J. W. Barnett, Jr.	101,500	
d.	J. K. Holman	42,500	
e.	Caribbean AgriSystems	18,000	
f.	Caribbeana Council	15,000	
g.	Caribbean Water Resources	25,000	
h.	Intendance International Consultants	20,000	
i.	Spencer Kellogg	5,000	
j.	Douglas Thompson	5,000	
			402,000
	TOTAL		$959,339

---

*Item 3 does not include services which are to be compensated by grants and fees shown in Item 2.

ILLUSTRATIVE PROJECTS TO BE FUNDED
BY CBC INTERMEDIATE FINANCIAL INSTITUTION

1. Costa Rica/Macadamia Nuts
2. Grenada/Lobster and Conch
3. Grenada/Food Processing
4. Dominica/Floriculture
5. Jamaica/Winter Vegetables
6. Dominica-Costa Rica/Passion Fruit
7. St. Lucia/Minerals
8. Dominica/Regional Freshwater Supply

1. Costa Rica/Macadamia Nuts

A. Business Description: CBC will participate in the establishment of a new macadamia nut plantation of at least 500 acres in Turrielba, Costa Rica, for export to the U.S. Although the trees will require 6-7 years to reach full maturity, cash flow from initial production will begin in the third year. New acreage planting is liked to immediate marketing of existing production of co-participants in support of project investment requirements.

B. Participants

1. Equity

a. CBC - 40-50%

b. Macadamia de Costa Rica S.A. - 40-50%

c. Private investment company - 20-0%

MCR is owned and operated by the Rojas family, largest producers of sugar, bananas and macadamia nuts in Puerto Rico.

2. Non-equity

a. Iroquois Brands, a specialty foods marketer based in Greenwich, Connecticut, is currently negotiating for U.S. distribution rights with CBC.

b. The American Nut Company is serving CBC as technical and market analyst.

C. Investment

$1,000,000 over three years:

1. Equity

a. CBC/CBIC Ltd. - $150,000 ($75,000 each)

b. Rojas - $150,000

2. Debt

Local financial sources - $700,000
(May require a 20% equity interest.)

D. Economic Analysis

An independent economic analysis undertaken for CBC has projected gross earnings of $1.3 million per year.

E. Status

1. Financial pro formas and economic analyses are completed.

2. The Rojas ~~family~~, by letter of intent, has committed land, $150,000 equity investment, and export rights to existing production.

3. Local financial sources have committed in principle to a $700,000 loan.

4. U.S. distribution arrangements are being negotiated.

F. Development Aspects

1. Job creation.

2. Foreign exchange generation.

3. Satellite farming.

2. Grenada/Lobster and Conch

A. Business Description. Improved techniques will be applied in the farming, freezing and export to the U.S. of lobster and conch from Grenada.

B. Participants

a. The Shore Group (marketing and distribution) - 33%

b. CBC - 33%

c. G. A. Menezes (Grenada) (management) - 33%

C. Investment

$400,000:

1. Equity

CBC/CBIC Ltd. - $160,000 ($80,000 each)

2. Debt

a. To be determined. - $200,000

b. Bank of Grenada - $40,000

D. Economic Analysis

A completed business plan projects retained earnings after 5 years of $3.7 million.

E. Status

1. Exclusive exports rights have been granted to the Shore Group.

2. Business Plan completed.

3. Local equity investor committed.

4. Bank of Grenada financing approved.

5. Operations start-up scheduled September 1984.

F. Development Aspects

1. Jobs creation.

2. Foreign exchange generation.

3. Satellite farming.

3. Grenada/Food Processir

A. Business Description. OPIC has recently approved the partial funding of a CBC feasibility study for the production and export of specialty foods such as pepper relish, banana chips, barbeque sauce and coconut cream.

B. Participants

1. CBC
2. Iroquois Brands
3. Local agricultural and processing experts

C. Investment

To be determined by the feasibility study.

D. Economic Analysis

To be determined by the feasibility study.

E. Status

1. Arrangements in place with local agriculturalist and farmers association.

2. Arrangements in place with local processing expert.

3. Preliminary review of available raw foodstuffs.

4. Preliminary review of existing processing facilities.

5. Preliminary commitments from Iroquois Brands on feasibility study, product recipes, U.S. licensing and distribution arrangements, project financing.

6. Ten-year exclusive bulk-volume processing and export rights granted by Interim Advisory Council.

7. Preliminary commitments on project financing.

F. Development Aspects

1. Job creation.
2. Privatization of local economy.

3. Foreign exchange generation.

4. Satellite farming.

4. Dominica/Floriculture

A. Business Description. The U.S. Trade and Development Program is partially funding a feasibility study for the cultivation and export of fresh-cut flowers and rooted ornamental cuttings.

B. Participants

1. Equity

   a. CBC

   b. Local growers (to be determined).

   c. U.S. distributors (to be determined).

2. Non-Equity

   a. The Traverse Group (feasibility study)

   b. Flower wholesalers - New York, Miami, Detroit

   c. Government of Dominica, Organization of American States

   d. Local growers

   e. Air Caribe

C. Investment

Preliminary estimates are:

1. Capital $243,000

2. Operating $151,500/year

D. Economic Analysis

The completed feasibility study will include a detailed analysis. Preliminary estimates indicate gross revenues of $562,500 per year ($405,000 net).

E. Status

1. Feasibility Study approximately 65% finished, will be completed in September.

2. Previous field trips have included extensive land surveys, and the development of relationships with all major local growers.

3. Test sales have been conducted in wholesale outlets in Miami, New York and Detroit.

4. Preliminary discussions have been undertaken with major U.S. flower chains and distributors.

5. Preliminary discussions have been held with local and U.S. air transport.

F. Development Aspects

1. Job creation.

2. Foreign exchange generation.

3. Strengthened transportation system.

4. Nucleus farm/satellite farming.

5. Jamaica/Winter Vegetables

A. Business Description: The U.S. Trade and Development Program is partially funding a CBC feasibility study for a 600-acre farm to grow, pack, grade and export to the U.S. East Coast melons, tomatoes and vegetables.

B. Participants

1. Equity

   a. CBC - 60%

   b. Local landowner (under negotiation) - 40%

2. Non-Equity

   a. Wholesaler and retailers such as Safeway, Kroger and Giant have indicated interest in off-taking production.

   b. Agencies of the Jamaica Government are actively assisting project implementation.

C. Investment

To be determined by the feasibility study.

D. Economic Analysis

The feasibility study currently underway is confirming probable ROI in the range of 50-60%.

E. Status

1. Feasibility study nearing completion.

2. Preliminary interest from Safeway, Giant, Kroger.

3. Negotiating land leases, varietal testing, local partnership.

F. Development Aspects

1. Job creation.

2. Foreign exchange generation.

3. Satellite farming.

6. Costa Rica-Dominica/Passion Fruit

A. Business Development. CBC will establish 500 to 1,500 acres in new passion fruit production in Costa Rica and/or Dominica. The fruit will be processed into concentrate in the producing country, and shipped in bulk to wholesalers/juice bottlers in Europe and the U.S.

B. Participants

1. Equity

   a. CBC - 60%

   b. Local investor - 40%

      i. Dominica - Agro Industries

      ii. Costa Rica - Rojas or other landowners

2. Non-Equity

   a. Intendance International Consultants (growing operations).

   b. Process technologist - N/A.

   c. Marketing - through IIC.

C. Investment

1.	Capital investment	- $1,187,500
2.	Direct costs - year 1	- $1,705,000
3.	Indirect costs - year 1	- $ 480,000

Costs for a 500 acre operation would be substantially lower.

D. Economic Analysis

Preliminary economic analysis indicates annual net earnings of $3,000,000.

E. Status

1. Field trip to Dominica, March 1984.

2. Initial marketing survey, May 1984.

3. Appropriate land search underway in both Dominica and Costa Rica.

F. Development Aspects

1. Jobs creation.

2. Foreign exchange generation.

3. Satellite farming.

4. Rationalization of under-utilized capital equipment (Dominica Agro Industries).

7. St. Lucia/Minerals

A. Business Description: Based on encouraging field surveys, CBC has entered into a joint venture relationship with AMAX, Inc. to conduct a precious metals exploratory program in St. Lucia.

B. Participants

1. Equity

a. CBC

b. AMAX

c. Government of St. Lucia

C. Investment

To be determined by the exploration program.

D. Economic Analysis

To be determined by the exploration program.

E. Status

1. Recent, encouraging field surveys completed.

2. CBC/AMAX agreement to undertake joint exploration program.

3. CBC discussing exploration/exploitation arrangements with Government of St. Lucia.

E. Development Aspects

1. Job creation.

2. Foreign exchange generation.

8. Dominica/Regional Freshwater Supply

A. Business Description. CBC will participate in the construction of a freshwater loading station in Dominica to supplement supplies on arid islands in the Eastern Caribbean. U.S. TDP is partially funding a feasibility study designed to prepare the project for commercial implementation.

B. Participants

1. Equity

   a. CBC - 49%

   b. Dominica - 51%

2. Non-equity

   a. International Water Resources (IWR), a company closely affiliated with CBC, has developed the project over the past three years and would manage the project.

   b. Bechtel has been IWR's principal engineering consultant.

   c. Poten & Partners has been IWR's principal marine transportation consultant.

C. Investment

$2,900,000

1. Equity

   a. CBC/CBIC Ltd.

   b. Dominica

2. Debt

   Caribbean Development Bank - $2,320,000

D. Economic Analysis

Studies have demonstrated that Dominica freshwater can be delivered to arid Eastern Caribbean at prices substantially lower than the cost of desalination. If sales equal only 20% of demand on six selected islands, 20,000 tons per day, and a profit of $0.50 per ton is realized, annual profits would be over $3.5 million.

E. Status

1. U.S. TDP feasibility study completed fall 1984.

2. Bechtel has completed preliminary engineering design for the $2.9 million Dominica facilities.

3. Detailed marine transportation, delivery and distribution proposals for about 15 different harbors have been prepared by Bechtel and Poten.

4. The Government of Dominica has fully supported thi project for three years.

5. Discussions with potential purchasers have been initiated.

F. Development Aspects

1. Jobs creation.

2. Foreign exchange generation.

3. Regional economic security.

8/24/84

CBIC - Monthly Operating Budget

A.	Salaries/Retainers		
	1. Executive Management	$5,750	
	2. Project Development	5,000	
	3. Finance	3,000	
	Sub-Total		$13,750
B.	Outside Services		
	1. Project Consultants	3,000	
	2. Legal	3,000	
	3. Accounting/Tax	1,000	
	Sub-Total		7,000
C.	Administration		
	1. NY Office	2,500	
	2. DC Office	3,000	
	3. Travel	3,750	
	Sub-Total		9,250
			$30,000

Sources of Funds

1. CBC and Other Investors
2. CBIC - Cash Reflows
3. CBIC - Project Development
4. Operating Affiliates
5. Feasibility Study Funding
6. Miscellaneous Retainers

6

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

MEMORANDUM FOR THE FILE   August 6, 1984

FROM : PRE/I, MR. RICHARD ROSENBERG

SUBJECT: I.O.P. APPROVAL--CARIBBEAN BASIN CORPORATION PROJECT

An Investment Opportunity Proposal for the above-referenced project was reviewed and approved on August 3, 1984, in attendance were:

LAC/DR	Robert Otto
PPC/PDPR	Neal Zank
AID/PRE	Neal Peden
PRE/I	Robert Parra
PRE/I	Compton Chase-Lansdale
GC/PRE	Norman Page
AID/PRE	Anabel Smith

The following issues raised during the review will be addressed in the development of the Investment Paper for the project.

-- Controls will be placed on CBIC's disposal of cash receipts accruing to CBIC before the repayment of the AID loan.

-- A potential cofinancing arrangement with another private investor was discussed at the meeting. This possibility will be explored.

-- The loan agreement will preclude the use of AID funds in subprojects with parastatal equity participation, absent case-by-case approval by AID.

-- Provisions with respect to employment generation and local equity requirements in subprojects will be formulated and presented for review at the IP meeting.

[Clearances on file with PRE]

AGENCY FOR INTERNATIONAL DEVELOPMENT

ADVICE OF PROGRAM CHANGE

COUNTRY	: Caribbean Regional
PROJECT TITLE	: Caribbean Basin Corporation
PROJECT NUMBER	: 940.0002.41
FY 1984 CP REFERENCE	: None
APPROPRIATION	: Selected Development Activities ($1.2 million) Agriculture, Rural Development and Nutrition ($1.3 million)
LIFE-OF-PROJECT FUNDING	: $2.5 Million (L)
INTENDED FY 1984 OBLIGATION	: $1.2 Million (L)
LOAN TERMS	: 5 Year Loan at market interest rate (approximately 14 percent)

This is to advise that A.I.D. intends to obligate $1.2 million during FY 198[illegible] for the Caribbean Basin Corporation project. This is a new project and was not included in the FY 1984 CP.

The Project will provide financing to help capitalize a privately owned and managed venture capital fund for the Caribbean region. The fund will offer debt and equity financing to eligible start-up and expanding small and medium-sized businesses in the Caribbean.

AGENCY FOR INTERNATIONAL DEVELOPMENT
ACTIVITY DATA SHEET

PROGRAM:

CP 81-05 (8 79)

TITLE	FUNDING SOURCE	PROPOSED OBLIGATION (In thousands of dollars)		
Caribbean Basin Corporation	Selected Development Activities; Agric., Rural Dev., & Nutrition	FY 1984 1,200		LIFE OF PROJECT (Auth.) 2,500
NUMBER 940.0002.41 GRANT ☐ LOAN ☒ / NEW ☒ CONTINUING ☐	PRIOR REFERENCE None	INITIAL OBLIGATION FY 1984	ESTIMATED FINAL OBLIGATION FY 1985	ESTIMATED COMPLETION DATE OF PROJECT FY 1986

Purpose: To help capitalize a $5.0 million venture capital fund for the Caribbean region which will finance the start-up and expansion of eligible small and medium-sized business enterprises in the region, as well as provide project development and management assistance.

Background: The Caribbean Basin initiative has highlighted the scarcity of institutions in the region which provide debt and equity financing, as well as project development work and management assistance to new and/or expanding businesses.

The sponsors of the project believe that the Caribbean Basin Initiative has improved the climate for such activities in the region. Their company (Caribbean Basin Corporation -- "CBC") is currently managing approximately ten separate feasibility studies for start-up ventures in Caribbean countries. For the more promising of these, it expects to arrange necessary financing, provide management assistance and retain significant equity positions.

Project Description: A.I.D. proposes to supplement CBC's ability to fund Caribbean ventures by providing a loan of $2.5 million to Caribbean Basin International Corporation (CBIC), a wholly-owned offshore subsidiary of CBC. A.I.D.'s loan would be matched by a $2.5 million equity contribution from private investors. The $5.0 million pool would be available for investment in small and medium ventures, primarily in the areas of agriculture and non-traditional exports. Relatively minor amounts from the pool would be available for project development activities and feasibility studies.

Covenants will be negotiated to focus the activities of CBC/CBIC in areas of high development impact, including net employment generation, net foreign exchange generation, and creation of economic opportunities for small farmers and other non-employee suppliers. CBIC will be permitted to invest only in ventures having substantial local ownership.

A.I.D. funds will be loaned for five years at a market rate of interest (approximately 14 percent). Repayment will occur in a balloon at the end of the fifth year: CBIC will have to refinance the loan from private sources at that time. Thus, A.I.D. will be providing support during the fund's crucial start-up years, without tying up development assistance resources during later years when the fund, if successful, ought to be able to attract other financing.

Relationship of Project to A.I.D. Strategy: This project fully supports the Agency's strategy of incorporating private enterprise into A.I.D.'s program efforts to achieve development objectives and is consistent with the Caribbean Basin initiative.

Beneficiaries: The immediate beneficiaries will be those entrepreneurs and local businesses receiving financing and other services to help assure their success. Other benefits will include creation of new employment, additional foreign exchange, commercial opportunities and technical assistance for small farmers and other third-party suppliers, and the development of local technical and managerial skills in the new enterprises.

Host Country and Other Donors: A.I.D.'s $2.5 million loan will constitute only 25 percent or less of the funding of the ventures in which CBIC invests. The remainder will come from private investors and lenders.

Major Outputs:	All Years
Projects/businesses financed	10

A.I.D.-financed Inputs	All Years ($000)
Loan	2,500
Total	2,500

U.S. FINANCING (In thousands of dollars)	Obligations	Expenditures	Unliquidated
Through September 30 1982			
Estimated Fiscal Year 1983			
Estimated Through September 30 1983			
		Future Year Obligations	Estimated Total Cost
Proposed Fiscal Year 1981	1,200	1,300	2,500

PRINCIPAL CONTRACTORS OR AGENCIES

Caribbean Basin Corporation

DRAFTED: PRE/I, RRosenberg:mkw:07/27/84

AUTH: A-AA/PRE, PKimm____

CLEARANCES: AA/PRE, NPeden (Info)____ (Designate)
PRE/I, RJParra____
PRE/PPR, CGormly____
PRE/PPR, BEBouchard____
GC/PRE, NPagé____
LEG, MO'Sullivan____
PPC/PB, JPainter____
GC/LA RLester ____