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ANNUAL REPORT

PRIVATE SECTOR REVOLVING FUND

AGENCY FOR INTERNATIONAL DEVELOPMENT

DECEMBER 1985

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A. PRIVATE SECTOR REVOLVING FUND

1. Annual Report. The requirement for the annual report presented herewith is stated in Section 108(h) of the Foreign Assistance Act of 1961, as follows:

> "Not later than December 31 of each year, the President shall submit a comprehensive report which details all projects funded under this Section during the previous fiscal year, all reflows to the revolving fund account, a status report on all projects currently contained in the fund's portfolio. Such reports shall include, but not be limited to, information regarding numbers and kinds of beneficiaries reached, amounts and kinds of benefits provided by the funded projects to targeted populations, and a justification for projects within the context of the goals and objectives of the United States development assistance program."

2. AID's Private Sector Initiative. In 1981, the Agency for International Development (AID) initiated a program to encourage the increased use of private enterprise to stimulate growth and meet basic human needs in the developing world. These initiatives coincided with mounting evidence that those developing countries which have relied primarily on the private sector and market forces for growth experienced more rapid economic progress, by and large, than those which have relied primarily on the public sector and government controls. This more rapid economic progress, in turn, was often more widely diffused, thereby promoting the development of small businesses, generating employment, and expanding participation of women in entrepreneurial initiatives. Many countries that once neglected the private sector and have suffered poor economic performance thus were rethinking their overall development strategies. This

reassessment became even more crucial in the face of a then-gathering world recession. Capitalizing on these trends, AID has steadily increased its emphasis on projects and programs that activate market forces and that encourage host-country environments conducive to private investment and private entrepreneurial activities which spur both economic and social progress.

3. Rationale For The Revolving Fund. AID's recently formed Bureau for Private Enterprise (PRE) was charged with designing innovative private enterprise projects which, when field-tested, would not only provide their own immediate benefits but would also serve as prototypes for projects initiated by the rest of the Agency. In 1983, Administrator M. Peter McPherson asked Congress to establish a Private Sector Revolving Fund through which PRE's growing portfolio could be channeled. The rationale for establishing such a revolving fund was as follows:

- To ensure program accountability by joining responsibility and performance (making the program's financial integrity and level of activity depend on reflows from viable projects);

- To encourage participation in the program by the private sectors in the United States and in the developing countries through procedures which demonstrate "bottom line" results;

- To permit growth in the program without the expenditure of additional tax dollars (through recovery of principal, interest and fees, and temporary investment of these proceeds in United

States Treasury obligations until commitment to new development loans); and

- To ensure flexibility in the program by freeing disbursement schedules from fiscal year appropriations limitations, thus providing greater leeway for AID to seize innovative investment opportunities to increase employment, incomes, generation of foreign exchange, technology transfer, and other benefits.

4. Authorizing Legislation. The Private Sector Revolving Fund was authorized by the International Security and Development Assistance Authorizations Act of 1983 (Section 101(b)(2) of the Further Continuing Appropriations, 1984, Public Law 98-151), signed on November 14, 1983, and incorporated as Section 108 of the Foreign Assistance Act of 1961, as amended.

Section 108 declares that private enterprise development "is a vital factor in the stable growth of developing countries", and further, that it is in the best interests of the United States "to assist the development of the private sectors in developing countries and to engage the United States private sector in that process". To promote such development, the President was authorized to establish a "Revolving Fund Account" in the Treasury.

Section 108 specifies certain types of activities that the revolving fund may support. These include activities that have a demonstration effect (that is, can be replicated by AID field missions, financial institutions, and others), are innovative, are financially viable, will maximize development impact particularly in employment and the use of appropriate technology, and are directed primarily to providing support and services not otherwise available to small business enterprises and cooperatives.

Other requirements for projects include: no more than $3,000,000 may be provided by the U.S. Government for any one project; a "substantial portion" of the financial support for each project must come from host country sources; no more than 20 percent of revolving fund assets may support projects in any one country; loans must be made primarily to intermediary institutions serving the private sector; loans must be made at or near the interest rate "otherwise available to the recipient".

5. Funding. To capitalize the revolving fund, Congress authorized the transfer to the fund of up to US$20 million per year in FYs 1984 - 86 from AID's development assistance accounts. In addition, interest and fees, and earnings on revolving fund reflow assets were also to be deposited in the revolving fund account. Ultimately, Congress expected that the revolving fund's reflows would make it self-sustaining and would eliminate the need for additional transfer authority. Once the fund reaches assets of US$100 million, the maximum statutory size of the fund, earnings will be returned to the Treasury. In fact, AID will use only US$46.5 million of the US$60 million in available transfer authority during FYs 1984 - 86, mainly because other AID program requirements have been more pressing.

B. ADMINISTRATION OF THE FUND

1. Management. Management responsibility for the Private Sector Revolving Fund rests with AID's Bureau for Private Enterprise (PRE), under broad direction of the Administrator of the Agency. The Bureau consults with other AID bureaus and field missions as appropriate. The Assistant Administrator, Bureau for Private Enterprise, has overall responsibility for the fund's operations. The Senior Deputy Assistant Administrator serves as managing director of the fund and oversees portfolio priorities, investment approvals, and financial operations, including investment of fund assets in interest-bearing U.S. Treasury obligations. The investment of fund assets is undertaken in coordination with the Agency's Loan Management Division, Office of Financial Management (M/FM/LMD). The director of the Office of Investment of the Bureau for Private Enterprise (PRE/I) handles day-to-day operation of the revolving fund.

2. Development of Projects. Projects included for financing by the revolving fund are developed by PRE/I investment officers with full coordination and consultation with affected AID field missions. Representatives of AID's General Counsel's Office handle legal matters connected with the Bureau and are heavily involved in the negotiation process. Working within the mandate of the revolving fund legislation, the Bureau's Office of Investment develops criteria by which to identify, screen, analyze and design proposals.

3. Internal Review Procedures. The Bureau for Private Enterprise has formalized an internal review procedure for

proposals recommended by investment officers for revolving fund financing. The lead group is the Bureau's Portfolio Review Committee. It includes the Assistant Administrator; Senior Deputy Assistant Administrator; Director, Office of Investment; as well as representatives of AID's Bureau for Program and Policy Coordination and affected regional and centrally funded bureaus as appropriate.

This committee first reviews the project as an Investment Opportunity Proposal (IOP). The review focuses on the project's suitability from the standpoint of the revolving fund and of the development strategy for the affected country or countries. If the committee finds the project appropriate, further analysis and negotiations are undertaken by the parties involved. This leads to an Investment Proposal (IP), which again passes before the Portfolio Review Committee. The external Loan Review Board (see below) may review the proposal at either stage.

4. Loan Review Board. As part of its project review process, the Bureau for Private Enterprise in July 1983 established a Loan Review Board composed of private financial executives who are knowledgeable in all types of project financing in developing countries and their associated risks. The board reviews potential revolving fund investments as to financial viability, conformity to investment credit standards, and "packaging" for maximum effect. The board has reviewed all loans made from the revolving fund. During FY 1985, it met four times. The board's recommendations, while not binding on the Bureau, have been of significant assistance in the development of sound, creditworthy investments.

5. Investment of Revolving Fund Assets. The reflows of interest, fees, and principal to the revolving fund are available for investment in U.S. Government securities. In FY 85, approximately $89 thousand in interest and fees was invested. Principal reflows, however, will not begin until late FY 86 due to grace periods on principal repayments which vary in accordance with specific terms negotiated for each loan. Reflows in size sufficient to finance new loan commitments are not expected before FY 1988 or 1989.

The pace of disbursement of revolving fund loans in these early years as the revolving fund gets underway began slowly, but is gaining momentum. A total of $3.1 million (21 percent of FY 84 appropriations) was disbursed as of the end of FY 85. The rate of disbursements should increase, however, as the fund grows.

Reflows received and investments outstanding as of September 30, 1985, are as follows:

REVOLVING FUND REFLOWS

FY 1985

Source	Amount
Fees	$32,800.00
Interest	$56,002.97
TOTAL	$88,802.97

REVOLVING FUND REFLOW INVESTMENT ACCOUNT

September 30, 1985

Private Sector Revolving Fund Account #72x4341

	Cost	Value	Indicated Annual Income	Estimated Annual Yield
Cash(1)	$ 4,598.18	$ 4,598.18	$ -	0%
Securities:				
U.S. TBills due 10/31/85	$84,204.79	$85,000.00	$6,800.00(2)	8.00%(2)
TOTAL	$88,802.97	$89,598.18	$6,800.00	7.59%

AID has taken two steps during FY 85 to improve the revolving fund reflow position: (1) loans were structured with shorter maturity and grace periods, and (2) profit participation was made a part of loan terms and conditions. The latter has been included in three of the FY 85 loans (Agribusiness Investment Corporation, Multifoods, and Societe Marocaine de Depot et Credit - see Section D). The average weighted maturity of the FY 85 loans is 4.7 years compared with 6.8 years for the FY 84 loans. (Please refer to Annex IV.) Grace periods on principal repayments have similarly been shortened from an average of 34 to an average of 29 months.

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(1) Minimum purchase of T. Bills is $5,000.

(2) Approximate 1-year Treasury Bill yield @ 09/30/85.

The need to reduce the average maturity and grace period of revolving fund loans highlights a certain necessary conflict in the revolving fund concept, i.e., the goal of achieving significant development impact in a high risk environment versus the goal of a self-financing revolving fund dependent on short-term reflows to sustain future lending. The need for shorter maturities also has an adverse impact on the range of project opportunities which AID can consider and negotiate with LDC private businessmen. As the revolving fund grows, however, AID again will be able to extend maturities if it can maintain reflows large enough to provide $15 million annually for reobligation.

C. CHARACTERISTICS OF THE PORTFOLIO

1. Summary. The loan agreement for the first project financed from the Private Sector Revolving Fund account was signed by Administrator McPherson on April 10, 1984. Between then and the end of FY 1985 (September 30), 17 loans totaling $30.5 million had been approved and obligated. Nine of the revolving fund loans have grant components as an integral part of their project design. The nine grants total $1.42 million. These AID funds combined with funding from other sources helped activate investments totaling about $72.9 million, thus producing a leveraging ratio of 1 of 3.4 or one AID dollar out of every $3.39 invested.

This considerable increase over the FY 84 average leveraging ratio of 1 to 2.5 is attributable to the preponderance of intermediate financial institutions as loan recipients of FY 85 obligations as well as to continued interest in venture capital financing in which AID has taken only a 25-33% participation.

2. Types of Loans. Two general types of loans are used by the Office of Investment (PRE/I): (1) loans made to LDC private intermediate financial institutions (IFIs) and, (2) loans made directly either to private LDC businesses or to joint ventures between LDC and U.S. businesses.

The intermediate financial institution mode normally takes one of two forms. The first is a revolving fund loan directly to the IFI which, in turn, matches the AID loan in local currency, forming a pool of funds for subsequent on-lending to local private micro, small and/or medium-sized enterprises. The second form is a revolving fund loan which serves as collateral to guaranty a portion of the risk of subloans made by the IFI with its own funds. In both cases, the IFI provides all administrative support including subloan applicant review and approval, monitoring and implementation, as well as actual assumption or oversight of credit and foreign exchange risk, which risk may be passed on to subborrowers. (Section C.5 discusses the risk issue at greater length). In light of the requirements of Section 108, IFI loans comprise 14 of 17 loans finalized by PRE/I during FY 84-85, or 82% of the current portfolio by number and 88 percent in terms of loan principal.

A less commonly used loan structure for the revolving fund portfolio is the direct loan to a specific private LDC company. Only three such direct loans have been obligated thus far, comprising 18% of the current portfolio by number and 12% in dollar terms.

These direct loans are to projects ranging in size of total capitalization from $1.1 million to $10 million. Revolving fund assets committed range from 20% to 33% of the individual projects. With direct loans, the revolving fund carries full credit risk but not the foreign exchange risk as all revolving fund loans must be repaid in U.S. dollars.

Revolving fund loans can also be typed by objective. From this standpoint, the portfolio reflects many of AID's most important goals, i.e.:

- Financial institution development;
- Employment generation;
- Foreign exchange generation for the host country;
- Agribusiness/satellite farming development;
- Small and medium-scale business development;
- Export trade financing;
- Technology transfer;
- Capital market development;
- Health;
- Credit to micro businesses.

The loans also have positive implications for the achievement of United States development objectives in future years, i.e.:

- Leveraging of scarce AID funds through innovative financing mechanisms;

- Involvement of U.S. private industry in the development process; and

- A return on investment for the U.S. approximately equal to the cost of U.S. Government funds expended.

3. Collateral Account

Background. The Bureau for Private Enterprise developed the "Collateral Account" loan structure during the summer of 1984. The Office of Investment found during various project origination trips that there were many developmentally and commercially sound projects in AID-recipient countries that could benefit from AID financing, but only if the loan were structured in a way that minimized the foreign exchange risk to the borrower. Accordingly, PRE/I, working with AID General Counsel, devised a loan structure through which AID can lend and be repaid in U.S. dollars, but can at the same time mobilize extensions of needed local currency credit to the target beneficiary class without involving the conversion of AID loan proceeds into local currency, so long as the projects remain commercially viable.

Structure. There is no single standard Collateral Account loan structure. In fact, one of the Collateral Account's principal virtues is its flexibility in being designed for the particular needs of the borrower. There are, however, certain basic features. First, before any AID loan proceeds are disbursed, AID , the borrower, and a bank located in the United States ("Depository Bank") enter into a "Three-Party Agreement" which establishes an account in the borrower's name ("Collateral Account") to be held and managed by the depository bank. The three-party agreement also spells out whatever additional responsibilities the depository bank may be required to assume.

Upon the request of the borrower, AID disburses the requisite amount of loan proceeds into the Collateral Account. The depository bank invests those proceeds in a type of investment approved by AID, generally U.S. Treasury obligations. The depository bank then either issues or confirms a letter of credit guarantying an extension of local currency credit. The depository bank is willing to undertake the contingent liability associated with the letter of credit issuance or confirmation because, under the three-party agreement, the depository bank receives a security interest in the Collateral Account and the investments contained therein. This security interest assures the reimbursement of the depository bank in the event a payment must be made under the letter of credit.

The borrower's interest obligation to AID under the loan agreement is measured in relation to the rate of earnings on the investments in the Collateral Account. The borrower will also generally pay a utilization fee for this facility which is measured as a percentage of the amount of investments in the Collateral Account that have been "blocked" (i.e., made subject to the depository Bank's security interest) to guaranty issued or confirmed letters of credit. The loan agreement, for example, may provide for interest at a rate equal to the yield of 180-day Treasury Bills plus a utilization fee equal to two percent of the average daily amount of Treasury bills utilized or blocked.

The loan agreement will also provide for an orthodox principal repayment schedule. The dollars in the Collateral Account are expected to serve as the borrower's source of repayment, and thus the terms of the depository bank letters of credit must result in enough Treasury Bills being unblocked to permit periodic disbursements to AID in accordance with the loan agreement's principal repayment schedule.

Two examples of the types of local currency loans that can be effected by a Collateral Account loan are PRE's FY 84 loans for low-cost health product production in Thailand and Indonesia ("PATH" project) and for term agricultural credit in Ecuador. In the PATH project, loan proceeds deposited in a U.S. bank serve as collateral to permit that bank's issuance of a standby letter of credit guarantying fifty percent of term local currency loans by Thai and Indonesian commercial banks to health product manufacturers in Thailand and Indonesia. As the local currency loans are repaid, the amount of the U.S. depository bank's outstanding liability under the standby letters of credit is reduced, thus releasing investments in the Collateral Account from the depository bank's security interest and making them available for disbursement to AID as principal repayments.

The Thai and Indonesia banks have the responsibility to ensure that the principal amortization schedules of the local currency loans match the coverage reduction schedules of the standby letters of credit. The AID borrower has the responsibility to ensure that the letter of credit coverage reduction schedules match the principal amortization schedule in the AID loan agreement.

Unlike the PATH project, in which the local lending bank is the beneficiary of the letter of credit, the Ecuador project involves the guaranty of borrowings by two Ecuadorean financieras, or development banks. A serious constraint on the ability of the financieras to make long-term credit available to their customers is the financieras' inability to borrow on a long-term basis themselves. The beneficiaries of the letter of credit in this project, therefore, would be the purchasers of development bonds that may be issued by the financieras. The financieras would then be obligated under the AID loan agreement to lend the funds raised through the sale of these guarantied bonds to a designated class of target beneficiaries. As with the PATH project, the amortization schedule of the bonds would match the coverage reduction schedule of the letters of credit which in turn would match the financieras' principal repayment obligation under the loan agreement.

4. Loan Set Off Structure

Background. The Loan Set Off structure, developed by the Bureau for Private Enterprise in FY 85, represents a variation of the earlier mechanism and one by which AID can establish a letter of credit facility with a U.S. bank for the benefit of a financial institution in an AID-recipient country. Under this structure, AID enters into a loan agreement with the U.S. bank under which the U.S. bank agrees to issue or confirm letters of credit in an aggregate amount up to the outstanding principal balance of the AID loan.

AID, in this instance, is the customer or account party under the letters of credit, and the loan agreement constitutes the letter of credit application. Typically, the letter of credit application will include an undertaking by the account party to reimburse the issuer for any amounts paid out under the letters of credit. The loan agreement under the Loan Set Off structure limits the U.S. bank's right to reimbursement to the right to set off amounts paid under the letter of credit against the U.S. bank's principal repayment obligation under the AID loan.

Structure. The letter of credit facility thus established operates in the same manner as the facilities established by the Collateral Account structure developed by PRE during FY 84. Standby letters of credit issued by the U.S. bank can guaranty a portion of local currency loans by a host country bank ("Local Lending Bank") to an identified class of subborrowers such as small agribusinesses or nontraditional exporters. Such letters of credit can also guaranty some or all of loans to the local lending bank by local investors (as through a public bond offering) for on-lending to the qualifying subborrower group.

Under the Loan Set Off arrangement, AID shares in the credit risk of the subloans with the local lending institution but has no recourse to the local lending bank for the AID portion of the credit risk in the event subloan defaults lead to letter of credit claims. The documents which the local lending bank must present to obtain payment under the letter of credit include an "Assignment and Certificate" under which the local lending bank (1) certifies the occurrence of the default and the collection efforts it has made for recovery, and (2) assigns to AID a percentage of its rights against the defaulting subborrower equal to the percentage of the subloan that was guarantied by the letter of credit. The assignment and certificate will generally also include the local lending bank's promise to continue reasonable collection efforts on the defaulted subloan and to remit to AID a portion of the recoveries that corresponds to the portion of the subloan assigned to AID. If further collection efforts yield no further recoveries, the local lending bank has no obligation to pay AID, and the defaulted subloan will result in a principal loss under the loan.

Under the latter arrangement in which the standby letters of credit guaranty borrowings by the local lending bank, AID does have full recourse to the local bank in the event of a claim against the letter of credit. Defaults under subloans will not result in claims on letters of credit until such defaults actually cause the insolvency of the local lending bank.

A third use of the letter of credit facility is to induce a U.S. bank, usually the same bank that is the borrower under the AID loan, to confirm commercial or trade letters of credit issued by the local lending bank at the request of customers belonging to the designated class of eligible subborrowers. The beneficiaries of such trade credits will typically be U.S. exporters of products needed by the eligible subborrowers, e.g., farm equipment or production inputs for small agribusinesses. Amounts paid to the beneficiary-exporter by the U.S. bank can be set off against the AID loan principal, as with the standby letters of credit, if the local lending bank has not reimbursed the U.S. confirming bank within an agreed time period.

<u>Comparative Advantages of the Collateral Account vs. the Loan Set Off Structure</u>. The differences between the Collateral Account and Loan Set Off structure lie not in the nature of the letter of credit facility but in the mechanism for setting it up. The Loan Set Off structure has several important advantages over the Collateral Account structure. Most importantly, there are countries in which banks have offshore borrowing limits such as Indonesia. The Collateral Account structure requires the local lending bank to enter a loan agreement under which it is the direct borrower of U.S. dollars. PRE's experience, at least in Indonesia, was that many banks were not willing to use a substantial portion of their offshore borrowing limits in a loan facility that does not permit the banks freely to utilize the U.S. dollars borrowed. Under the Loan Set Off structure, when used to guaranty subloans directly, the local lending bank is beneficiary of a standby letter of credit facility and has no obligation to repay U.S. dollars except to the extent of remitting to AID a portion of the recoveries on defaulted subloans.

The Loan Set Off structure is also somewhat simpler from a legal point of view. There is no account owned by a host country bank which creditors of the bank might seek to attach. AID need not concern itself with taking a security interest in a somewhat unorthodox bank account with the attendant perfection and choice of law questions.

Finally, the Loan Set Off structure permits the establishment of a letter of credit facility with perfect liquidity. The U.S. bank under the Collateral Account structure is concerned with having to pay claims at a time when the U.S. government securities have not reached maturity and must be sold at a discount if the bank wants immediate reimbursement.

The Collateral Account structure does, however, have certain advantages of its own. If properly established, there is a good chance that AID need not take the risk of a possible U.S. bank insolvency. AID's recourse is to a segregated identifiable account which might not be treated as an asset of the U.S. bank in an insolvency proceeding. This same assurance could be obtained with the Loan Set Off structure if AID insisted that the U.S. bank secure its loan obligations by a pledge of U.S. government securities in a segregated account. Such a pledge, however, is likely to reduce the interest rate the U.S. bank is willing to pay.

It is not possible at this time to reach a firm conclusion on which structure produces the highest yield for AID. To date, the Collateral Account investments have been limited almost exclusively to U.S. Treasury Bills or Notes, and the U.S. bank has generally deducted a small management fee from the earnings. The interest rates proposed by the U.S. banks in PRE's FY 1985 projects for the Loan Set Off structure were generally higher than the 180-day Treasury Bill rate and did not include any management fee.

PRE now has sample documentation for both versions and will utilize both for at least another year to see how each operates in practice. U.S. banks have shown considerable interest in each structure.

PRE has long sought to cofinance projects with private U.S. banks. Both loan structures afford PRE a potential to induce cofinancing through the U.S. bank's fractional sharing of credit risk. U.S. banks are very unlikely to share subloan credit risk, however, and the manner in which local lending bank credit is shared requires careful thought at the project design stage.

5. Risk. As inferred from the discussion above, an assessment of risk can be approached from many sides, the ultimate test of which, for AID, is full repayment of principal and interest to the revolving fund or the U.S. Government.

Major risks may be categorized as:

- Borrower or sub-borrower credit risk;
- Foreign exchange risk;
- Country credit risk;
- Country political risk.

In addressing the various risk eventualities, the Collateral Account and Loan Set Off mechanisms afford considerable comfort in that U.S. or revolving fund monies remain invested in U.S. obligations physically located in the United States. Both mechanisms have been used thus far only for intermediate financial institution (IFI) loans where the financial viability of the institutions - U.S. or LDC - provides a strong-to-modest buffer against unforeseen difficulties.

Other IFIs, however, may be new venture capital organizations which invest their own and AID funds in start-up businesses. Here the success or failure of individual ventures, whether or not approved in advance by PRE, will directly impact revolving fund capital.

Direct loans, though representing a small proportion of revolving fund assets, run both the risk of project and sponsor viability as well as unpredictable country financial and political risk, as funds are disbursed directly to such borrowers through indigenous banks which, while private, fall under local government monetary and political regulation. Then, too, foreign exchange risk is of greater concern with direct loans, although this risk is reduced by PRE project design in selecting projects which generate foreign exchange to cover repayments in U.S. dollars.

This brings us back to the principal rationale cited by Congress in establishing the revolving fund: to ensure accountability of the program by joining responsibility and performance. PRE developed the Collateral Account and Loan Set Off mechanisms to address concerns of LDC borrowers while remaining cognizant of its own financial integrity and accountability.

Venture capital, other start-up institutions and direct obligations are pursued with the same attention to viability of the revolving fund and development objectives. Greater risks of less controllable varieties are inherent in some investments, however, and must be accepted as "givens" where very strong development and demonstrative objectives so warrant.

6. Geographical Balance. As a matter of policy, PRE from the outset has made its investments so as to avoid an overconcentration of resources in any one geographical area - consistent, of course, with available investment opportunities. This issue was addressed directly in the revolving fund legislation, which specifies that no more than 20 percent of revolving fund assets may be allocated to any single country. As of September 30, 1985, distribution of the revolving fund portfolio by region and country was as follows (in US$ millions) (See also Annex III):

Region	Regional Total	Country Total
Asia/Near East	US$18.70 (61%)	
Indonesia		US$6.10 (20%)
Morocco		US$4.50 (14%)
Philippines		US$2.35 (8%)
Thailand		US$5.75 (19%)
Latin America & Caribbean	US$ 9.35 (31%)	
Antigua		US$0.10 (0%)
Costa Rica		US$1.000 (3%)
Dominican Rep.		US$2.00 (8%)
Ecuador		US$2.80 (9%)
Regional		US$3.45 (11%)
Africa	US$1.25 (4%)	
Regional		US$ 1.25 (4%)

Region	Regional Total	Country Total
Worldwide	US$1.20 (4%)	US$ 1.20 (4%)
TOTAL:		US$30.50 (100%)

The legislation addresses itself to percentages of total fund size, however, envisioning a minimum $60 million capitalization plus eventual growth to a maximum $100 million.

PRE is striving to maintain geographical balance in its investments in order to complete successful demonstration projects in all regions and in each of the diverse financial, cultural, and economic contexts in which AID operates. For example, it is seeking in FY 86 to develop new projects in the Middle East and particularly in Africa - areas of the Third World that present exceptional challenge, and where projects have been slower to mature.

D. 1985 PORTFOLIO: INDIVIDUAL LOANS

1. Introduction. In FY 85, the Bureau for Private Enterprise initiated nine new loan projects which it believes best serve the self-sustaining growth of market forces in target countries. Of these loans, eight were made through intermediate financial institutions for sublending to a broad spectrum of small business and one loan was made directly to a company with exceptionally strong development impact. These loans were distributed to six individual countries, plus three projects involving multicountry loans.

Revolving fund loans obligated during FY 84 and 85 now total seventeen, their characteristics are summarized in Annexes I, II, III, and IV.

Brief descriptions of FY 85 obligations follow, by region.

2. LATIN AMERICA AND THE CARIBBEAN

ACCION MICRO-LENDING
Latin America and the Caribbean Area

Project Number	:	940-0002.44
Authorization Date	:	September 20, 1985
Loan Number	:	598-S-008 dated September 25, 1985
Type	:	Intermediate Financial Institution

This project is intended to expand the availability of credit to very small or "micro" enterprises in Latin America and the Caribbean. Capital for start-ups or expansions is normally available to these businesses only from family savings or local money lenders charging exorbitant interest rates. To supplement these sources, some community-based lending programs have been developed successfully in recent years. Most, however, have been funded by international or multilateral organizations on concessional terms. This revolving fund project, on the other hand, consists of a $1.0 million AID loan at market rate to Accion International, a U.S.-based private voluntary organization which provides technical assistance to a number of such micro-lending programs in the region. Funds will ultimately provide assistance to vendors, artisans and small manufacturers, which businesses comprise the largest and fastest growing sectors in the Third World.

Accion will deposit the loan proceeds in a dollar account with a bank located in the United States. Using this account as collateral, the bank will write standby letters of credit to guarantee loans by local banks in local currency to micro-lending programs. Thus, a community organization wishing to expand its micro-lending portfolio can raise additional capital by borrowing at prevailing market rates from local commercial banks. The organization will charge the micro borrowers nonsubsidized interest rates.

AID is also providing a $100,000 grant to Accion to cover start-up administrative expenses. Over the long term, operating costs are expected to be covered by guaranty fees.

Development Impact

The Accion project will help generate jobs, a key focus for most AID programs in Latin America and the Caribbean. Beneficiaries are very small, generally poor, business men and women, with fixed capital below $2,000 and employing five or fewer employees. Average loans will be short term and in the $100-300 range.

MULTIFOODS REVOLVING CREDIT FACILITY
Latin America and the Caribbean

Project Number	:	940-0002.52
Authorization Date	:	September 30, 1985
Loan Number	:	598-S-009 dated September 30, 1985
Type	:	Intermediate Financial Institution

Intended to promote LDC private sector satellite farming operations or agribusiness, this project simultaneously enhances export potential in Latin America and the Caribbean area. Satellite farming operations are projects wherein core agribusinesses provide inputs and extension-type services to surrounding farmer-suppliers. The borrower of the AID loan is International Multifoods Corporation (Multifoods), a 93-year old diversified U.S. company which provides food, produce and food services worldwide. It has proven expertise in fresh produce production and delivery, technical assistance, management and engineering.

AID's $1.2 million loan to Multifoods in FY 85 can be rolled over annually for up to 5 years and, if the initial loan is successful, can be increased to $3 million.

The loan will go to Multifoods on a partial recourse basis and will be leveraged on a 2-to-1 basis by private investors and commercial banks. Multifoods is to advance its own funds into the LDC financing operation in an amount equal to AID's contribution.

LDC private enterprises benefiting from the project will have maximum net fixed assets of $700,000. Emphasis will be on agriculture, agribusiness or nontraditional exports with significant satellite farming components.

Development Impact

Primary beneficiaries of the project are local farmers and other small suppliers who would not otherwise have access to credit or modern technology. Development results include job creation, technology transfer and foreign exchange generation.

ANTIGUA SHRIMPERY
Antigua

Project Number	:	940-0002.14
Authorization Date	:	September 26, 1985
Loan Number	:	541-S-001A dated September 30, 1985
Type	:	Direct

By diversifying Antigua's economy, drawing on the island's natural resources, this project is also intended to save foreign exchange. Antigua is heavily dependent on imports, which have increased from roughly 10-to-30% in only a year. This project is expected to supplant imported frozen shrimp for the local tourist industry, thereby reducing foreign exchange outflows. The $250,000 AID loan to Antigua Shrimpery Ltd. is targeted for the construction of 25 acres of ponds and facilities needed to produce 65,000 pounds of shrimp annually for the local market. AID's contribution, moreover, triggers the investment of a total $1.14 million in the project, a leveraging ratio of nearly one of five.

The $250,000 AID loan consists of a $150,000 loan made in FY 83 and a $100,000 loan in FY 85. Only the latter $100,000 loan is for the account of the revolving fund, and comprises part of increased project costs estimated at $600,000. The refinancing supports higher costs brought about by earlier incurred engineering costs, the addition of a hatchery facility and project delays resulting from technical problems in securing reliable sources of post-larval shrimp (seed shrimp). The balance of cost increases are being financed by private equity investment and commercial banks. AID's share of the total financing has thus been reduced from 25-22%.

Development Impact

As noted above, this project is expected to make a noticeable improvement in Antigua's foreign exchange account. The diversification of the economy will add 12 jobs directly and generate more employment indirectly in construction, marketing and food services. The introduction of aquaculture technology to the island is also expected to lead to additional future employment and strong replication potential in the Caribbean region.

3. LATIN AMERICA, THE CARIBBEAN, AND AFRICA

AGRIBUSINESS INVESTMENT CORPORATION
Latin America, the Caribbean, and Africa

Project Number	:	940-0002.45
Authorization Date	:	August 28, 1985
Loan Number	:	598-S-007 dated August 28, 1985
Type	:	Intermediate Financial Institution

Description

The Agribusiness Investment Corporation (AIC) project is designed to stimulate the start up and expansion of small agribusinesses. The project sponsor, Western Agri-Management Inc. (WAM), a medium-sized U.S. farming and agribusiness firm with a track record of successful new ventures in several developing countries, wants to pursue additional joint venture projects in Latin America, the Caribbean and Africa. The project consists of a $2.5 million AID loan to Agribusiness Investment Corporation (AIC), created by WAM as a venture capital fund.

AIC and the parent, WAM, will provide direct investment, technical assistance, and management and will mobilize other U.S. and local investors. Emphasis will be on satellite farming operations. Under this concept, an agribusiness buys from surrounding farmers and in turn provides these farmers with seed, marketing knowhow, and other inputs. The approach often leads to increased farm income and production. The sponsor thus takes an active entrepreneurial role rather than a passive role played by, say, a bank which provides financing only to projects brought to it by others. For every AID dollar this project will mobilize three additional dollars in total capitalization.

Development Impact

The project will help generate jobs and foreign exchange, develop local technical and management skills and, in the satellite farming components, help local farmers produce a better product. Beneficiaries are small agriculture-related businesses and small farmers.

4. THE MIDDLE EAST

SOCIETE MAROCAINE DE DEPOT ET CREDIT
Morocco

Project Number	:	940-0002.50
Authorization Date	:	September 25, 1985
Loan Number	:	608-S-045 dated September 30, 1985
Type	:	Intermediate Financial Institution

This project is intended to stimulate trade financing for small Moroccan businesses through the creation of a private export trading company. Since the early 1980s, Morocco has faced an increasing shortage of hard currency and a negative trade balance, prompting a drive to spur exports. Societe Marocaine de Depot et Credit (SMDC) currently finances 12 percent of Moroccan foreign trade. The project consists of a $2 million AID loan to help SMDC form an export trading company to facilitate exports from the small business sector.

AID's loan will create a facility to guaranty SMDC's guaranty of loans made by other Moroccan banks to the trading company, GENEX, which is to be partly owned by SMDC. The trading firm in turn will deliver short-term credit to exporters and buy export merchandise against letters of credit or purchase orders.

Development Impact

The project is expected to benefit about 50 small businesses and provide an estimated 3,000 local jobs by 1988. It will also spur non-traditional exports and thus help build Morocco's hard currency reserves.

5. ASIA

BANK NIAGA
Indonesia

Project Number	:	940-0002.46
Authorization Date	:	August 29, 1985
Loan Number	:	497-S-090 dated August 30, 1985
Type	:	Intermediate Financial Institution

Description

The Bank Niaga loan and the following three Asian loans obligated in FY 85 employ the Loan Set Off structure, with Rainier Bank of Seattle as depository and confirming bank. The project is designed to provide credit for small and medium-sized Indonesian enterprises, mainly in rural areas. Emphasis is on businesses producing for the export market, thus reinforcing the Indonesian government's effort to rebuild depleted foreign exchange reserves. AID has provided a $2 million loan guaranty to Bank Niaga, a privately owned institution which normally lends only to large firms.

AID's loan guaranties 50% of a $4 million loan pool provided by Bank Niaga in local currency for onlending to small- and medium-sized borrowers outside of Jakarta, the capital. Loans will go primarily to producers of nontraditional exports in order to spur diversification of products Indonesia can sell abroad to earn foreign exchange. AID is also providing a $50,000 grant to help Bank Niaga train branch personnel in serving these new markets.

Development Impact

The project will help create rural jobs, earn foreign exchange, and expand the local credit base by opening new credit windows for small firms that have trouble borrowing through regular commercial channels. Beneficiaries are businesses, primarily nontraditional exporters, with $150,000 - $300,000 in monthly sales. Loans are limited to $250,000 per borrower.

OVERSEAS EXPRESS BANK
Indonesia

Project Number	:	940-0002.47
Authorization Date	:	August 29, 1985
Loan Number	:	497-S-091 dated August 30, 1985
Type	:	Intermediate Financial Institution

Complementary to the Bank Niaga loan, this activity is intended to provide short and medium-term credit to small enterprises, principally to less populated areas of Indonesia. The local lending institution, Overseas Express Bank (OEB), is 50% owned by the Indonesian government but is in the process of conversion to full private ownership.

AID's $2.85 million loan for OEB will guaranty 50% of OEB's $5.7 million local currency lending through its 20-branch rural network to the presently depressed small enterprise sector. Handicraft, agribusiness and light manufacturing are targets. These beneficiaries are consistent with Government of Indonesia objectives to broaden private sector involvement so as to stabilize Indonesia's oil-dependent economy. A $50,000 AID grant will help OEB train loan officers in handling small business accounts.

Development Impact

Direct beneficiaries will be 1,300 small enterprises by 1990. Employment generation is a major expected result.

FAR EAST BANK AND TRUST
Philippines

Project Number	:	940-0002.49
Authorization Date	:	August 29, 1985
Loan Number	:	492-S-077 dated August 30, 1985
Type	:	Intermediate Financial Institution

Mobilizing short and medium-term credit to small and medium-scale Philippine enterprises, principally exporters, is the objective of this revolving fund loan. It reinforces local government encouragement of trade financing to generate hard currency. AID's $2 million loan for Far East Bank and Trust Company (FEBTC) will guaranty 50 percent of a $4 million local currency loan pool for on-lending to small and medium-sized export businesses.

FEBTC will raise funds from its deposit base or, alternatively, mobilize additional trade financing in hard currency in the form of confirmed letters of credit. The credit pool is designed to stimulate self-sustaining employment, sales, and incremental investment in agribusiness and light manufacturing subsectors.

Development Impact

Goals for this project include the creation of up to 7,500 job-years, targeting at least 48 small enterprises by 1990. Firms with a maximum $1 million in net fixed assets - as defined by the Philippine government - are eligible for the pool.

THAI DANU BANK
Thailand

Project Number	:	940-0002.48
Authorization Date	:	August 29, 1985
Loan Number	:	493-S-043 dated Augsut 30, 1985
Type	:	Intermediate Financial Institution

To stimulate growth of small-scale enterprises in Thailand's rural agro-industrial sector, this project is intended to mobilize needed short- and medium-term credit. Thailand's rapid development and resultant agricultural mechanization, coupled with a record labor supply, have caused a drop in agricultural employment, prompting the Thai government to target the creation of agribusiness jobs to absorb excess rural labor. AID's $2.35 million loan for Thai Danu Bank, a private institution, will expand the bank's operations into rural areas.

The AID loan provides a partial guaranty of $4.7 million of local currency lending by Thai Danu to the target group, businesses with less than $250,000 in net fixed assets. Subloans will be limited to $130,000 per borrower. A $50,000 AID grant will help the bank train its rural branch personnel.

<u>Development Impact</u>

With the objective of increasing rural employment in Thailand, the Thai Danu project goal is to benefit 140 small rural businesses by 1990.

E. FUTURE CHALLENGES

1. Project Origination. To date, the Bureau for Private Enterprise has received revolving fund investment proposals from sources ranging from individual LDC sponsors, their U.S. or foreign representatives or contractors, indigenous and U.S. banks, U.S. corporations, and USAID missions.

Early proposals were often minimally documented and, where considerable potential for AID involvement appeared to exist, the proposals required extensive pre-feasibility research. As the Private Sector Revolving Fund has become more widely known and its purposes are better understood, the number of proposals received has grown exponentially. PRE/I has slowly built a network of contacts within the AID mission community and the private sector in the U.S. and the Third World to achieve a steady flow of potential projects. Mission understanding of PRE's focus and demonstration projects are key to eventual private sector development impact throughout the agency. Such recognition is growing both from the project origination and replication standpoints. Solidifying these gains is a major goal for PRE over the next year and beyond.

2. Replication. Section 108 requires that the projects undertaken by the revolving fund have a demonstration effect, that is, that each project be developed in a form that can be copied by other investors, lending agencies, and other regional units of AID. This was a characteristic of PRE investments even before enactment of the revolving fund legislation. For example, two of PRE/I's earlier projects involving LDC institutions, Siam

Commercial Bank and Kenya Commercial Bank, had clear demonstration effects. In both projects, the use of these private institutions as vehicles of credit for indigenous small business led to larger projects, designed by the AID missions in Thailand and Kenya respectively, targeting the private sector and involving other indigenous commercial banks. More recently, the revolving fund projects have used techniques for mobilizing small business credit pools that can also be translated into larger projects funded by U.S. missions abroad.

The Antigua Shrimpery project is an example of a technology transfer activity that could be replicated in the Eastern Caribbean. The same elements - rising demand for shrimp and a falling local capability to harvest shrimp naturally - could be met by installation of the pond/hatchery technology used in the Antigua project. Another area for replicable projects exists in the private sector supply of products hitherto monopolized by government. Thai Meat Processing, as an example, is Thailand's first modern private sector slaughterhouse (our FY 84 revolving fund project). The introduction of private enterprise into areas traditionally dominated by the public sector opens up totally new avenues for private sector delivery of products and services.

In addition, the USAID mission in the Dominican Republic has expressed interest in the financial mechanism employed by PRE's complementary export finance related loans in Morocco - one of which supports the importation of inputs used to produce products for export and the other of which helps to provide short-term credit to small- and medium-sized local exporters.

As revolving fund projects mature, PRE plans to develop models of target development objectives and loan financing mechanisms which can be adapted by USAID missions to local country priorities and private sector initiatives. In this manner, the goal of agency-wide replicability of revolving fund projects can be achieved.

3. Projected Reflows. Reflow projections inclusive of FY 86 appropriations, based on total capital of $46.5 million, show annual reflows of interest, fees, and principal for fiscal years 1984 through 1988 as follows:

($000)

FY 84	FY 85	FY 86	FY 87	FY 88
0	$88	$725	$3,300	$6,200

If provided the full $60 million, the Bureau for Private Enterprise believes that sufficient reflows will accrue by the early 1990s to ensure a self-sustaining Private Sector Revolving Fund program.

4. Risk. Continuing challenges for the revolving fund itself, as well as for replicability purposes, are those of more versus less risk, shorter or longer maturities versus reflows sufficient to achieve self-sufficiency, and acceptance of profit participation versus interest rate, grace period and other negotiable terms and conditions.

As mentioned earlier, (see page 10, 20, and 21) the goals of self-sufficiency for the revolving fund versus long term development objectives and replicability may often be at odds. Projects whose activities may require longer start-up periods, and therefore longer grace periods for repayment of principal may nevertheless offer significant development returns. It may be possible to compensate for the increased risk and longer payout period by negotiating a significant portion of the financial return as a profit participation, with a lower initial interest rate.

The Bureau has managed to balance these conflicting challenges thus far. As both agency replicability and revolving fund self-sufficiency become interdependent in the face of scarce foreign assistance funding, however, this challenge grows. The Bureau hopes that, as understanding of this interdependence spreads, so too will cooperation of all parties involved in the success of the private sector initiative.

F. ANNEXES

I. LOAN PORTFOLIO - PRIVATE SECTOR REVOLVING FUND

Loan Name/Country/Proj.#	Funding (million) (L)AID	(G)	Total	Leveraging Ratio	Terms Rate %	Grace yrs.	Term	Gty/Coll. Acct.	Fees (7 Late Pymt/ Default	Facil.	Commit.	Util.	Cancel/ Prepymt	(L) (G) Disburse.	Reflws (8
BANCO DE DESARROLLO FINADE, S.A. (Dominican Republic 940-0002.25	2.0	.05	4.0	1 of 2 (1	7.5% (2	4 years	7	X/X	X/X	X		X	X/-	$1.0MM (L)	10,000 (F)
SUBPRODUCTOS DE CAFE (Costa Rica, other) 940-0002.27	1.0	.05	3.0	1 of 3	11.5% (3	2 years	10		X/X	X	X	X			8,800 (F)
HEALTHLINK (PATH) CREDIT (Thailand & Indonesia) 940-0002.30 (Grant) 940-0002.31 (Thailand Loan) 940-0002.32 (Indonesia Loan)	2.5	1.00	5.0	1 of 2 (1	8.0% (6	5 years	9	X/X						$272,903 (G)	
THAILAND LIVESTOCK MEAT PROCESSING (Thailand) 940-0002.24	2.5	.07	10.0	1 of 5	11.0%	2 years	10		-/X		X		X/X		
FINANCIERA DE GUAY-QUIL (Ecuador) 940-0002.36	1.4		2.8	1 of 2 (1	10.2% (3	2 years	3	X/X	X/X	X			X		7,000 (F)

I. LOAN PORTFOLIO - PRIVATE SECTOR REVOLVING FUND

Loan Name/Country/Proj.#	Funding (million) (L)AID	(G)	Total	Leveraging Ratio	Terms Rate %	Grace yrs.	Term	Gty/Coll. Acct.	Fees (7 Late Pymt/ Default	Facil.	Commit.	Util.	Cancel/ Prepymt	(L) (G) Disburse.	Reflws (8
FINANCIERA IBERO-AMERICANA (Ecuador) 940-0002.36	1.4		2.8	1 of 2 (1	10.2% (3	2 years	3	X/X	X/X	X		X			7,000 (F)
CARIBBEAN BASIN CORP. (CBC) (Caribbean-Wide) 940-0002.41	1.2		4.8	1 of 4	12.7%	5 years	5		-/X		X		X/-	$106,250 (L)	
Wafabank (Was COMPAGNIE MAROCAINE DE CREDIT ET DE BANQUE) (CMCB) (Morocco) 940-0002.34	2.5	.05	5.0	1 of 2 (1	8.0% (2	1-1/2 yrs.	5	X/X*	-/X	X		X		$2.0MM (L)	56,003 (I)
ACCION:Micro-Lending Gty (Latin Amer./Carib.) 940-0002.44	1.0	.10	1.0	1 of 1	7.7% (2	3 years	5	X/X							
AGRIBUSINESS INVESTMENT CORPORATION (Latin Amer./Africa) 940-0002.45	2.5		10.0	1 of 4	12.0% *	1 years	5		X/X	X	X		X/-		

I. LOAN PORTFOLIO - PRIVATE SECTOR REVOLVING FUND

Loan Name/Country/Proj.#	Funding (million) (L)AID	(G)	Total	Leveraging Ratio	Terms Rate %	Grace yrs.	Term	Gty/Coll. Acct.	Fees (7 Late Pymt/ Default	Facil.	Commit.	Util.	Cancel/ Prepymt	(L) (G) Disburse.	Reflws (8
BANK NIAGA (Indonesia) 940-0002.46	2.0	.05	4.0	1 of 2 (1	9.5% (4	3 years	7	X/X	-/X						
OVERSEAS EXPRESS BANK (Indonesia) 940-0002.47	1.2		4.8	1 of 4	12.7%	5 years	5		-/X						
THAI DANU BANK (THAILAND) 940-0002.48	2.35		4.7	1 of 2 (1	9.5% (4	2 years	5	X/X	-/X						
FAR EAST BANK AND TRUST (Philippines) 940-0002.49	2.0		4.0	1 of 2 (1	9.5% (4	2 years	5	X/X	-/X						
SOCIETE MAROCAINE DE DEPOT ET CREDIT (Morroco) 940-0002.50	2.0		2.0	1 of 1 (1	9.7% *	3 years	3	X/X	X/X			X			

I. LOAN PORTFOLIO - PRIVATE SECTOR REVOLVING FUND

Loan Name/Country/Proj.#	Funding (million) (L)AID	(G)	Total	Leveraging Ratio	Terms: Rate % (5	Grace yrs.	Term	Gty/Coll. Acct.	Fees (7: Late Pymt/ Default	Facil.	Commit.	Util.	Cancel/ Prepymt	(L) (G) Disburse.	Reflws (8
MULTIFOODS (Worldwide) 940-0002.52	1.2		3.6	1 of 3	10.2 *	1 years	1		-/X	X	X				
ANTIGUA SHRIMPERY (Antigua) 940-0002.14	.1		.5	1 of 5	11.0%	1 years	5								
TOTAL AVERAGE	30.5 1.8	1.42	72.9	1 of 3.39	9.7%*	2.44 yrs.	5.69							3,106,250 (L) 272,903 (G)	88,803

NOTE: Total Funding figures do not include Grant components.

SMDC: Plus Participation Fee, $25,000, when Genex gross sales are equal to or greater than $5 million in any Genex Fiscal Year.

Agribusiness Investment: Plus 2 percent of gross revenues.

Multifoods: Plus 2 percent of gross revenues.

NOTE: Footnotes on next page.

FOOTNOTES

1) In the case of intermediate financial institutions (IFIs), the leveraging ratio quoted applies only to the Agreement with the IFI, the main borrower. Accumulated on-lending, which also activates use of subborrowers' own funds, will increase the ratio by an estimated factor of 2 - 3.

2) Based on 180-day Treasury Bills of approximately 7.5% as of 09/30/85.

3) Based on 180-day Treasury Bills plus 2 percent.

4) Based on 3-year Treasury Note plus 1/10%, maximum 9.5%.

5) Based on 1-year Treasury yield + 2 percent.

6) Based on LIBOR (about 8.75% as of 09/30/85 less 0.75%).

7) Definition of fees are as follows:

   a) Late payment/default penalty - a higher rate of interest is charged to discourage late payment and default; the rate is usually about 2.4% higher than that in the loan agreement in the case of default, not so severe for late payment;

   b) Facility fee - charged the borrower for the benefits of having a line of credit made available; runs about .5% of loan amount and is payable shortly after signing of the loan;

   c) Commitment fee - charged to induce the borrower to draw down loan funds according to a prearranged schedule, or sooner; runs .5% per year on the undisbursed principal balance;

   d) Utilization fee - charged the borrower for the guaranty service provided through the use of a collateral account; ranges from about .25% to 2.0% per year;

   e) Cancellation fee - charged if the borrower exercises the right to cancel the loan;

   f) Prepayment fee - charged if the borrower exercises the option to prepay the loan (which it might do if market interest rates decline); intended to help AID recoup the cost of establishing the loan.

8) Additional disbursements totalling $1,920,000 in loan principal and $156,121 in grant funds have been made as of 12/09/85; $47,825 in additional reflows had also been received as of that date. Programmed grant commitments are higher than grant disbursements shown.

ANNEX II

REVOLVNG FUND COMPARATIVE REVIEW

Characteristics:	FY 1984	FY 1985
General Emphasis of Development Goals:	*Commercialization of Technology	*Export Trade Promotion
	*Investment Promotion	*Capital Market Development
	*Privatization	*Satellite Farming SSE/ Micro Targets
Mechanisms:	*IFI - AID Letters of Committment	*IFI - Collateral Account (Guaranty) via 3-Party Agree. or Loan Set Off (Guaranty)
	*Direct - Direct Disbursement	*Direct - Direct Disbursement
Loan Structure:		
Maturity (Wtd. Avg.)	6.8 years	4.7 years
Grace Period (Avg.)	2.87 years	2.44 years
Interest Rate (Weighted Avg.)	10.6%	9.7%
Leverage Ratio:	1 of 2.50	1 of 3.39

ANNEX III

PRE/I REVOLVING FUND
(September 30, 1985)
(US$ Millions)

PORTFOLIO BY FUNDING PER REGION/COUNTRY*

REGION/COUNTRY	COUNTRY TOT. %	REGION TOT. %
ASIA/NE		
Thailand	US$ 5.75 (19%)	US$18.70 (61%)
Indonesia	US$ 6.10 (20%)	
Philippines	US$ 2.35 (8%)	
Morocco	US$ 4.50 (14%)	
LAC/SA		US$ 9.35 (31%)
Ecuador	US$ 2.80 (9%)	
Antigua	US$ 0.10 (-%)	
Dominican Republic	US$ 2.00 (8%)	
Costa Rica	US$ 1.00 (3%)	
Regional**	US$ 3.45 (11%)	
AFRICA		US$ 1.25 (4%)
Regional**	US$ 1.25 (4%)	
WORLDWIDE***	US$ 1.20 (4%)	US$ 1.20 (4%)
TOTAL	US$30.50 (100%)	US$30.50 (100%)

*NOTE: RF legislation includes the following caveats:

1. Not more than US$3.0MM to any single project.
2. No more than 50% of total project funding of any single project is to be provided by A.I.D.
3. Not more than 20% of RF assets to any single country and, preferably, this limit will be closer to 10% when the RF is fully funded.

** Includes Agribusiness Investment Corp. (Total $2.5 million) estimated as split 50% each to Africa and LAC/SA regions.

*** Multifoods Revolving Credit Facility project, worldwide, but expected to be used initially in the LAC/SA region.

ANNEX IV.

REVOLVING FUND AVERAGE TERM OF FY 84 - 85 LOANS

FISCAL YEAR 84
8 Loans
SUM TOTAL OF LOANS: US$14,500,000

Weighted Average	6.78 years
Unweighted Average	6.50 years*

FISCAL YEAR 85
9 Loans
SUM TOTAL OF LOANS: US$16,000,000

Weighted Average	4.70 years
Unweighted Average	4.50 years

FISCAL YEAR 84 - 85 COMBINED
17 Loans
SUM TOTAL OF LOANS US$30,500,000

Weighted Average	5.69 years
Unweighted Average	5.47 years*

---

* 1) The Multifoods Loan (FY 85) is included with a term of one (1) year. The facility is characterized by an annual roll-over for a period of five (5) years.

2) FINGUASA and FINIBER Loans (FY 84) are each calculated using a term of three (3) years as opposed to the ten (10) year original term for each.

These adjustments account for the change in unweighted averages previously used of 7.5 years for 1984 alone and 5.7 years for 1984 and 1985 combined.

ANNEX V.

REVOLVING FUND REFLOWS

FY 1985

Source	Amount
Fees	US$32,800.00
Interest	US$56,002.97
Total	US$88,802.97

REVOLVING FUND REFLOW INVESTMENT ACCOUNT
September 30, 1985

Revolving Fund Account #72x4341

	Cost	Value	Indicated Annual Income	Estimated Annual Yield
Cash (1)	$ 4,598.18	$ 4,598.18	$ -	0%
Securities: US T Bills due 10/31/85	$84,204.79	$85,000.00	$6,800.00 (2)	8.00% (2)
Total	$88,802.97	$89,598.18	$6,800.00	7.59%

1. Minimum purchase of T. Bills is $5,000.
2. Approximate 1 year Treasury Bill yield @ 09/30/85.

JAN 10 1986

ACTION MEMORANDUM FOR THE ADMINISTRATOR

FROM : AA/PRE, Neal Peden   Original signed by Neal Peden

SUBJECT: The Private Sector Revolving Fund Annual Report 1985

Problem: As required by Congress in Section 108(h) of the Foreign Assistance Act of 1961, as amended, "Not later than December 31 of each year, the President shall submit a comprehensive report (to the Congress) which details all projects funded under this Section during the previous fiscal year . . . ".

PRE hereby submits its second Annual Report for the Private Sector Revolving Fund as required.

Discussion: PRE is proud of the continuing achievements on behalf of private sector development in A.I.D.-assisted countries during FY 1985. Pertinent changes, developments, and the characteristics of the revolving fund portfolio are covered in the attached annual report, along with brief descriptions of each loan obligated during the 1985 fiscal year.

Greater country and regional representation has been achieved through demonstration projects obligated during the year, and total loans in the portfolio have grown from $12 million to $30.5 million. In addition, new financing mechanisms have been employed - namely the use of Collateral Account and loan setoff guaranties as described in the report - to overcome the constraints of lending in U.S. currency and of meeting the needs of private borrowers in some countries where offshore borrowing limitations apply.

The 1985 obligations can be characterized as primarily supporting export trade promotion, capital market development, and satellite farming and small-scale enterprise/micro targets.

This Annual Report has received the clearances shown, as well as comments from OMB, Lisa Kaplan, whose comments have been incorporated in the text.

Recommendation: We recommend that you approve the Annual Report and sign the attached covering transmittal letters to the President of the Senate and the Speaker of the House of Representatives.

The documents, if so approved, should be forwarded to LEG, Joseph Duncan, for hand delivery to Congress.

Attachments:
1. Cover Letters to President of the Senate and Speaker of the House of Representatives
2. Annual Report

Clearances

PRE/I, Judith A. Knudson	: jak	Date:	1/7/86
SA/PRE, Douglas Trussell	: DT	Date:	1/8/86
PRE/I, Sean P. Walsh	: [illegible]	Date:	[illegible]
OMB, Lisa Kaplan	: (drft)	Date:	12/19/85
PRE/PPR, Robert Beckman	: RB	Date:	[illegible]
GC/PRE, Robert Sonenthal	: RBS	Date:	8 Jan 86
GC/LP, Robert L. Lester	: [illegible]	Date:	8 Jan 86
PPC/PDPR/IP, Neal Zank	: [illegible]	Date:	[illegible]
DAA/PRE, L. P. Reade	: [illegible]	Date:	1/9/86
LEG/CLS, Joseph Duncan	: Draft	Date:	12/19/85 (1/86)
LEG, Kelly C. Kammerer	: [illegible]	Date:	1/9/86

PRE/I:JAKnudson/baw/01-07-86/Ext:647-9842/0080A

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PRE/I
3214

17 JAN 1986

Dear Mr. President:

Section 108 of the Foreign Assistance Act, as amended, established the Private Sector Revolving Fund and requires the President to submit an annual report on the Fund's portfolio and finances.

On behalf of the President, I am pleased to submit herewith the second such annual report.

Sincerely,

/s/ M. Peter McPherson

M. Peter McPherson

Enclosure
Private Sector Revolving Fund
Annual Report

The Honorable George Bush
President of the Senate
United States Senate
Washington, DC 20510

PRE/I:JAKnudson/baw/01-07-86/Ext:647-9842/0080A

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17 JAN 1986

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On behalf of the President, I am pleased to submit herewith the second such annual report.

Sincerely,

/s/ M. Peter McPherson

M. Peter McPherson

Enclosure
Annual Report

The Honorable Thomas P. O'Neill
Speaker of the House of Representatives
Washington, DC 20515

PRE/I:JAKnudson/baw/01-07-86/Ext:647-9842/0080A