ANNUAL REPORT

PRIVATE SECTOR REVOLVING FUND

AGENCY FOR INTERNATIONAL DEVELOPMENT

December 1984

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Contents

A. AID'S PRIVATE SECTOR INITIATIVE

1. Reasons for a New Approach. This Administration concluded early in its first term that private enterprise could exercise an important role in developing the economies of Third World countries. It was decided that a greater effort should be made through the United States foreign aid program to strengthen local private sectors, as mandated under Section 601 of the Foreign Assistance Act, in a manner that was fully consistent with the New Directions legislation.

A renewed emphasis on private enterprise is appropriate at this time for a number of reasons.

First, evidence is persuasive that those developing nations that have relied on market forces for growth have, by and large, registered impressive economic gains. Conversely, many of those choosing to manage and direct their economies primarily through the public sector have fared less well. Elements common to the success stories include these: the right policy climate to mobilize private capital and to direct allocation of capital efficiently and equitably; a financial structure to help match sources of capital with productive uses of capital; and the development of managerial and technical skills to ensure that the invested capital base appreciates in value. Experience shows that these elements not only spur economic progress; they also build a resiliency into economies so the nations affected can better weather the impact of world recession and other factors beyond their control.

Second, recent economic problems in the developing world -- mounting debt service burdens and reduced demand and falling prices for traditional exports -- have led Third World leaders increasingly to reexamine their development philosophies and to take corrective action. This often has meant a shifting away from pervasive government control of these economies toward a greater reliance on the private sector.

Third, the decline, in real terms, of official aid levels from the United States and other donor countries has confronted both developed and developing nations with the challenge of enlisting other resources and skills, including those of the private sector, to keep the development process on track.

The Agency for International Development believes that the market economy, including the profit motive, can be a strong self-sustaining engine for growth. With carefully selected, limited assistance that complements appropriate interventions by Third World governments, the private sector can achieve impressive results that yield balanced economic development. This is the philosophy behind AID's private sector initiative.

2. <u>Relationship to Four Cornerstones of AID Strategy</u>. The private sector initiative constitutes one of four

cornerstones of current AID strategy. The other three are policy dialogue, institution building, and technology transfer. Private sector projects and programs cut across, and reinforce, the other three, thus serving as mechanisms for carrying out activities related to those cornerstones. Thus the initiative is not focused exclusively on any one sector or program objective. Rather, it is a <u>means</u> of achieving development results across a broad range of sectors and objectives.

AID's Bureau for Private Enterprise therefore has attempted to utilize a private sector approach in achieving AID development goals in several areas, notably agricultural development, export promotion, and general expansion of rural small enterprises. Projects financed include elements of policy dialogue with the host government (changes in the regulatory environment; private sector access to local capital markets); institution building (the establishment or strengthening of a business; advisory services to small businesses; new financing techniques); and technology transfer (health products for poor people; use of coffee waste for animal feed; outreach to small farmers). As such, the private sector initiative will permeate not only revolving fund investments, but also projects throughout AID.

3. <u>Multiplication of Limited AID Resources</u>. Revolving fund loans are made at near-market interest rates. This is consistent with the requirements of Section 108(c) of the Foreign Assistance Act as well as with Bureau for Private Enterprise policy. AID believes that those Third

World businesses and institutions best able to contribute to development objectives are those that can stand competitively in the marketplace, without subsidy. We intend to strengthen such entities on a non-subsidized basis and therefore our loans to for-profit enterprises and the intermediate institutions that serve them are on near-market terms. This also strengthens the revolving fund itself by providing additional resources.

Revolving fund loans require substantial financial participation by the borrower and others, thus multiplying the impact of AID dollars. We require this as evidence of the financial viability of the project as well as of the borrower's commitment. Our leveraging or catalyst ratio in fiscal year 1984 revolving fund loans was 1 of 2.5, the first number representing AID's contribution and the second the total investment from all sources. While this is a good beginning, we hope to raise the average, subject to the circumstances surrounding the new projects.

B. ESTABLISHMENT OF REVOLVING FUND

1. Rationale. In order to institutionalize its private sector investment program, the Agency for International Development requested the 98th Congress to authorize a private sector revolving fund. The rationale for this mechanism was, and remains:

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

-- to encourage participation in the program by United States and developing country private sectors and international entities (important elements in leveraging AID funds) through a businesslike procedure which demonstrates "bottom line" results;

-- to permit growth in the program without the expenditure of additional tax dollars (through recovery of principal, interest and fees and investment of these proceeds in United States obligations); and

-- to ensure flexibility in the program by freeing disbursement schedules from fiscal year appropriations limitations, thus providing greater leeway for AID to innovate and seize investment opportunities.

2. Authorizing Legislation. Establishment of the Private Sector Revolving Fund was authorized by the International Security and Development Assistance Authorizations Act of 1983 (sec. 101(b)(2) of 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.

3. Summary of Legislation. Finding that private enterprise development "is a vital factor in the stable growth of developing countries", Section 108 declares it to be in the best interests of the United States "to assist the development of the private sector in developing

countries and to engage the United States private sector in that process." To promote such development, the President is authorized to establish a revolving fund account in the Treasury.

Section 108 specifies that the revolving fund may support only activities that:

-- are consistent with United States development assistance policies and the development priorities of host countries;

-- are the types of activities for which assistance is authorized under AID's functional accounts (Sections 103 through 106 of the Foreign Assistance Act of 1961, as amended);

-- will have a demonstration effect (that is, can be replicated by AID field missions, financial institutions and others);

-- will be innovative;

-- are financially viable;

-- will maximize the development impact appropriate to the country involved, particularly in employment and the use of appropriate technology; and

-- are primarily directed to making available to small business enterprises and cooperatives necessary support and services not otherwise available.

The legislation sets forth specific requirements relating to projects supported by the fund. These provide that not more than $3,000,000 may support any one project; that a "substantial portion" of financial support for these projects must come from host country sources; that no more than 20 percent of revolving fund assets may support projects in any one country; that loans be made primarily to intermediary institutions serving the private sector; and that they be made at or near the interest rate "otherwise available to the recipient."

4. Funding. The legislation authorized appropriation of up to $20,000,000 of Chapter 1, Part I funds for the revolving fund in fiscal year 1984. This amount was approved in the continuing resolution for that fiscal year. The continuing resolution for fiscal year 1985 (P.L. 98-473) approved the use of an additional $20,000,000 for the revolving fund for the current fiscal year. Reflows, that is, payments on loan principal and interest and income from fees that may be imposed by AID, will also be deposited in the fund account. The legislation states that "all funds in such account may be invested in obligations of the United States." Fund assets exceeding $100,000,000 shall be remitted to the Treasury; other amounts may be remitted at AID's option.

5. Annual Report. The requirement for the annual report presented herewith is stated in Section 108(h), 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."

C. PROCEDURES AND MANAGEMENT

To obtain a fresh view in its objective of providing businesslike and financially prudent operation of the revolving fund portfolio, the Bureau for Private Enterprise engaged Price Waterhouse to prepare a set of operating guidelines, or manual. This was completed in August 1984. Many of its recommendations are in the process of being incorporated in Bureau procedures.

Specific procedural and management issues that arose in FY 1984 include the following five items:

1. Development and Administration of Projects. The Price Waterhouse recommendations serve to systematize present Bureau practices in five categories -- identification and screening of projects; their analysis and design; their review and approval; monitoring and administration; and project evaluation. Clear lines of responsibility are drawn between the Bureau's Office of Policy and Program Review, which is responsible for overall program and budget functions, and the Office of Investment, charged with the development of specific investment projects.

The manual reinforces and fleshes out broad guidelines for the fund which were detailed in a memorandum from the Assistant Administrator, Bureau for Private Enterprise, to the Administrator of AID on November 16, 1983. Among other things, the memorandum states that revolving fund projects will incur risks that are limited and diversified, will involve entities with satisfactory financial structures and prudent managerial capabilities, and will offer financing on terms and conditions generally consistent with commercial practice in the host country "for which no exact commercial counterpart exists locally." The memo states further that funds from other AID bureaus and field missions and other institutions may be managed by the fund.

2. 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 and the associated risks in developing countries. The board reviews potential investments supported by the revolving fund as to their financial viability, conformity to investment credit standards, and the packaging of investment proposals and transactions. The board has reviewed all eight loans made from the revolving fund. This innovative use of private sector expertise will continue. The board's recommendations, though not binding on the Bureau, have been of significant assistance in the development of sound, creditworthy investments.

3. Overall Management. The Bureau for Private Enterprise has management responsibility for the revolving fund, under the overall direction of the AID Administrator. The Bureau also 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 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. obligations, in coordination with the Loan Management Division, Office of Financial Management. The Office of Investment, Bureau for Private Enterprise, handles day-to-day operation of the revolving fund.

4. Investment of Revolving Fund Assets. Section 108(b) allows monies appropriated for the revolving fund to be invested in obligations of the United States. However, Treasury Department policy prohibits the investment of appropriated funds. Because interest payments must be generated by additional Treasury borrowing, such investment has the effect of increasing the resources available to a program by adding to the national debt. As a result, the revolving fund had no investments in U.S. obligations in fiscal year 1984 and earned no interest thereon.

5. Evaluations. During 1984 the Bureau for Private Enterprise initiated a continuing program to obtain objective analyses of ongoing activities, both loan- and grant-funded. Illustratively, a team of AID officers and outside contractors made a month-long evaluation of two of the Bureau's early, non-revolving fund investments, those with Siam Commercial Bank and Kenya Commercial Bank, which involve on-lending to small and medium-scale rural enterprises. The team found that both projects have opened up opportunities for term lending with development impact to this target group via the indigenous private commercial banking system and recommended ways to further strengthen the projects. Similar evaluations of revolving fund projects will be made as each reaches a sufficiently mature stage for assessment.

D. REVOLVING FUND PORTFOLIO

Summary. The loan agreement for the first project financed from the revolving fund account was signed by Administrator McPherson on April 10, 1984. In all, eight loans, totaling $14,500,000, representing seven projects (Ecuador Capital Market Access Project involves two separate loans) have been approved. Five projects have grant components, totaling $970,000. These AID funds, combined with funding from other sources, totaled some $37,400,000, producing an AID leveraging ratio of 1 of 2.5.[1/] Six revolving fund.

1/ The ratio is potentially greater in the case of Intermediate Financial Institutions (IFIs). This is because the AID loan attracts not only the IFI's funds when the investment pool is set up but, later, attracts those project funds that enterprises borrowing from the pool put up themselves. These amounts cannot be predicted in advance; however, a rough estimate is that this on-lending stage increases a leveraging ratio of, say, 1 of 2, to 1 of 4 or 5.

investments were through intermediate financial institutions (IFIs) and two loan/grant interventions were made directly to indigenous private enterprises. Because of the early stage of this portfolio, no disbursements have yet been made; therefore no reflows of principal or interest had been deposited as of the presentation of this report in December 1984.

These projects are consistent with revolving fund criteria as stated in Section 108. They generally are innovative, have a demonstration potential, are financially viable, have the potential to increase host-country employment and promote the use of appropriate technology, and primarily support small business (and, in the case of Thailand Livestock Meat Processing and Caribbean Basin Corporation, small farmers) with services not otherwise generally available.

It should be noted that the revolving fund portfolio, requiring long negotiations and extensive travel, was developed by a limited staff of four investment officers.

Descriptions of the revolving fund projects and their expected development benefits follow.

HEALTHLINK LOAN POOL (PATH)
Thailand and Indonesia
Project Nos.: 940-0002.31(Thailand)
940-0002.32(Indonesia)
AUTH. DATE: August 17, 1984
Loan No.: 498-S-002, dated August 22, 1984
Type: Intermediate Financial Institution

Description

The central purpose of this project is to increase the availability of certain low-cost health products to lower-income people in Thailand and Indonesia. AID will make both a $2,500,000 loan and a $750,000 grant to Program for Appropriate Technology in Health (PATH), a Seattle-based U.S. non-profit organization. Unlike other revolving fund loans that involve an incidental grant component, the grant in this project is a primary moving factor. Using grant funds, PATH will contact U.S. health product companies to determine what products have been developed by those companies that might be marketed in Thailand and Indonesia in a way that would address the basic health needs of lower-income people.

After identifying such health products, PATH will approach private indigenously owned health companies in Thailand and Indonesia to propose that they consider producing and marketing the health products identified by PATH. PATH will be able to offer technical assistance to those private Thai and Indonesian health companies in negotiating licensing agreements with the U.S. health companies and in producing and marketing the products. PATH may work with only those health companies that, in PATH's judgment, are financially and technically capable of marketing the products in a way that makes them accessible to lower-income people. The health companies must also be willing to commit enough of their own resources to market the products in an appropriate manner.

The $2,500,000 Revolving Fund loan will complement PATH's efforts to interest Thai and Indonesian health companies by permitting PATH to assist the companies in obtaining bank financing. AID will disburse the loan proceeds into PATH's account in a bank selected by PATH but approved by AID. The funds in that account will be used to secure standby letters of credit (similar to bank guaranties) issued by PATH's bank guarantying a portion of a local currency loan by a Thai or Indonesian bank to the participating Thai or Indonesian health companies. The availability of these local currency loan guaranties will increase the local health companies' access to financing for their new PATH-identified product lines without causing the health companies to incur unnecessary long-term U.S. dollar debt with its attendant devaluation risks. (Several revolving fund loans during fiscal year 1984 were structured in a similar manner with AID's U.S. dollar loan proceeds being held in an offshore account and used as collateral to mobilize local currency loans. This experimental loan structure was employed because of the chronic devaluation many foreign currencies have been experiencing with respect to the U.S. dollar and many borrowers' understandable reluctance to incur any unnecessary foreign exchange risk. The loan structure is termed, in the remaining project descriptions, the "collateral account" structure.)

Development Impact

The direct development impact of this project will be an increase in the availability of low-cost health products that meet the basic health needs of lower-income persons in Thailand and Indonesia. Additionally, the project will result in the increase in the contacts between Thai and Indonesian health companies and their counterparts in the United States. The Thai and Indonesian health companies will become more involved in producing and marketing products, on a strictly for-profit basis, to persons in the lower end of the cash economy. This use of the private sector as a mechanism to deliver health products to low-income people is highly innovative and, if successful, readily replicable in other developing countries.

THAILAND LIVESTOCK MEAT PROCESSING
Thailand
Project No.: 940-0002.24
AUTH. DATE: April 23, 1984, as amended August 3, 1984
Loan No.: 493-S-040, dated September 9, 1984
Type: Direct loan to enterprise

Description

The purpose of AID's participation in this project is to assist small and medium-sized pig and cattle farmers in Thailand. AID will lend $2,500,000 to a newly-formed company, owned jointly by Thai and Philippine nationals, to help finance the construction of Thailand's first modern privately owned meat processing plant. The plant complex will consist of a slaughterhouse and processing, canning and cold storage facilities. It will produce top-grade meat products under the brand name of a large U.S. meat processing company with which the borrower will enter into a licensing agreement.

The borrower will obtain a large portion of the necessary livestock through a "nucleus estate and satellite farming" operation in Thailand. The satellite farmers will be the small and medium-sized livestock producers who are the principal intended beneficiaries of this project. To assure that the livestock supplied by the satellite farmers meets the quality standards necessary to produce top-grade processed meats, the borrower will furnish extensive technical assistance to the participating farmers, teaching them modern animal husbandry practices. AID will provide $50,000 in grant funds to assist in establishment of the satellite farming and farmer outreach system.

The concept for the meat processing facility came solely from the Philippine and Thai participants, without any AID involvement. Through AID's partial financing, however, the borrower has committed itself to the farmer technical assistance program and to obtaining a substantial portion of its raw materials through the satellite farming program.

Development Impact

This project is expected to benefit up to 2,000 small and medium-sized livestock producers in Thailand through providing technical assistance in animal husbandry practices and assuring a marketing outlet. The project will also entail the transfer into Thailand of modern meat-processing techniques. The borrower plans to export a portion of the processed meats to Asian markets, resulting in the generation of substantial amounts of foreign exchange. Finally, the project accords with the development strategy of the Government of Thailand to strengthen the Thai private sector. The meat processing industry has been dominated almost entirely by government-owned slaughterhouses, and the current project represents a significant step toward privatization of that industry.

ECUADOR CAPITAL MARKET ACCESS
Ecuador
Project No.: 940-0002.36
AUTH. DATE: August 27, 1984
Loan Nos.: 518-S-059, dated September 17, 1984
518-S-060, dated September 27, 1984
Type: Intermediate Financial Institutions

Description

This project is intended to benefit small and medium-sized Ecuadorian companies engaged in agriculture and agribusiness by increasing their access to the trade finance necessary to import agricultural equipment and raw materials. The project consists of two parallel $1.4 million loans, one to an Ecuadorian financial institution in Quito and another in Guayaquil. These financial institutions, called "financieras", have a function in Ecuador similar to that of investment or development banks in the United States or Western Europe.

When an agribusiness in Ecuador wishes to import such items as seed or farm equipment from the United States, it typically must obtain a letter of credit from its bank in Ecuador. Before the U.S. exporter is willing to ship the goods, the letter of credit must generally be confirmed by a U.S. bank to which the exporter will look for payment. U.S. banks are not now willing to confirm letters of credit issued by Ecuadorian financial institutions, and therefore small Ecuadorian agribusinesses have very little access to the trade financing necessary to import needed equipment and commodities.

The AID loan proceeds will be deposited into the borrowers' accounts in U.S. banks where they will serve as collateral giving the U.S. banks the security needed to confirm letters of credit. In other words, this loan employs the "collateral account" mechanism described more fully in connection with the Healthlink Loan Pool (PATH) project.

The project also involves a possible second phase designed to increase the amount of long-term local currency credit available to Ecuadorian agribusiness. During this second phase, the funds in the borrowers' accounts may be used as collateral for standby letters of credit guarantying a portion of a development bond offering by the two financieras. This development bond offering will allow the financieras to raise long-term local currency funds from Ecuadorian investors which will in turn allow the financieras to make term local currency loans to the same beneficiary group of small and medium-sized Ecuadorian agribusinesses.

There is currently no market for development bonds issued by private financierias because the market is dominated by bonds issued by the Government of Ecuador. Government-issued bonds are tax exempt in Ecuador, but bonds issued by private financieras are not. This asymmetry in the Ecuadorian bond market blocks access to long-term local currency financing by financieras and consequently precludes the financieras from providing much needed long-term local currency credit to small and medium-sized agribusinesses. Phase two of the project will come into effect only if there is a reasonable prospect that the partially guarantied private development bonds will be marketable. Consequently, elimination of the unequal tax treatment of public and private bonds will probably be a prerequisite to the second phase of the project.

Development Impact

Target beneficiaries for this project are privately owned small and medium-sized companies engaged in agriculture or agribusiness in

Ecuador outside the urban areas of Guayaquil and Quito. These companies must be majority-owned by Ecuadorian nationals. Increased import and long-term local currency credit to the small agribusiness sector will generate substantial employment as well as increase food production for both domestic consumption and export with the resultant foreign exchange generation and savings.

CARIBBEAN BASIN CORPORATION
Caribbean-wide and Latin America
Project No.: 940-0002..41
AUTH. DATE: September 28, 1984
Loan No.: 598-S-006, dated September 28, 1984
Type: Intermediate Financial Institution

Description

The purpose of this $1,200,000 loan is to spur the growth of small and medium-sized enterprises in the Caribbean Basin and Latin America engaged in agriculture, health-related activities or non-traditional exports. The loan will be made to a U.S.-based venture capital firm that will match AID's loan funds with funds from nongovernmental sources. The loan proceeds, with the matching funds, will be on-lent to qualifying subborrowers among the intended beneficiary class.

AID's immediate borrower, the U.S. venture capital firm, will take a very active entrepreneural role in identifying and developing projects that qualify for AID funding. For all proposed projects, except those involving a substantial satellite farming element, AID will provide funding only after AID has determined that the project will have sufficient development impact.

Development Impact

The overall project will emphasize subloans to agribusiness activities that include "satellite farming" systems. This emphasis is intended to assure that a significant portion of the subprojects will benefit small farmers. Inclusion of health-related and non-traditional export activities as eligible recipients will result in an increase in the availability of health products and services, the diversification of local economies and the generation of foreign exchange. The active participation of the venture capital firm in the subproject will also result in the transfer of agricultural and health technologies, as well as managerial skills, to the subborrowers. AID has opted to retain project-by-project approval in most cases rather than prescribing in advance the exact features required of each project. This affords the venture capital firm considerable flexibility but assures that the firm will be attentive to AID developmental objectives of which it has been informed in considerable detail. This project format makes it difficult, however, to specify the precise development impact the subprojects are expected to have.

BANCO DE DESARROLLO FINADE, S.A.
Dominican Republic
Project No.: 940-0002.25
AUTH. DATE: April 5, 1984
Loan No.: 517-S-048, dated April 10, 1984
Type: Intermediate Financial Institution

Description

The purpose of this $2,000,000 loan is to increase the trade and local currency credit available to small and medium-sized, privately owned Dominican Republic businesses engaged in non-traditional exports. This project therefore supports the Caribbean Basin Initiative legislation. AID's immediate borrower, Banco de Desarrollo FINADE, a privately-owned Dominican Republic development bank, will match the loan proceeds with local currency and extend the combined credit to the small business subborrowers.

To obtain financing from FINADE, the subborrowers must also contribute to the capitalization of a Dominican Republic export trading company. AID will provide a $50,000 matching grant to permit FINADE to retain a U.S. consultant to assist in the development of the export trading company. The export trading company, once established, will provide assistance to its members in exporting the non-traditional products. This loan employs the "collateral account" structure described in connection with the PATH and Ecuadorian projects.

Development Impact

The businesses eligible to receive financing under this project range from small plot owners who grow vegetables to existing small manufacturing concerns that may be adding new product lines falling into the category of non-traditional exports. The growth in the non-traditional export sector of the Dominican Republic economy will result in both employment generation and foreign exchange earnings. The project also will entail the transfer of the technical expertise necessary to set up and operate an export trading company.

SUBPRODUCTOS DE CAFE
Costa Rica (other countries later)
Project No.: 940-0002.27
AUTH. DATE: July 27, 1984
Loan No.: 515-S-044, dated July 30, 1984
Type: Direct loan to enterprise

Description

This $1,000,000 loan to Subproductos de Cafe, a Costa Rican owned and operated company, will help finance the borrower's expansion of its current operations for extracting from coffee by-products a subtance called "Pulpina", which is used as an element of animal feed. The loan will also help finance the purchase of certain equipment capable of extracting from coffee by-products a chemical mixture consisting of caffeine, alcohol, tannin and pectine; the alcohol and caffeine may be in a commercially marketable form. The borrower has also agreed to use its best efforts to develop the technology necessary to extract tannin and pectine from the chemical mixture in commercially marketable forms.

Development Impact

Disposal of coffee waste products presents a serious environmental problem in Costa Rica. The commercial use of these products has the potential of substantially reducing this problem. Moreover, if the technology proves effective and the commercialization of the by-products profitable, this process could be replicated in virtually any other "wet-method" coffee producing country with sufficient volume of coffee production.

The transfer of this technology to Costa Rica will permit significant value to be added to Costa Rica's local natural resources, thereby benefiting local coffee growers (including cooperatives). The coffee by-products have the potential of being exported with the resultant generation of foreign exchange; foreign exchange savings will also result from Costa Rica's decreased need to import cereals to feed livestock. Similarly, certain cereals such as corn will be made more available for human consumption. Finally, the expansion of the borrower's operations will entail the creation of new job opportunities for Costa Ricans.

COMPAGNIE MAROCAINE DE CREDIT ET DE BANQUE (CMCB)
Morocco
Project No.: 940-0002.34
AUTH. DATE: September 6, 1984
Loan No.: 608-S-053, dated December 11, 1984
Type: Intermediate Financial Institution

Description

The purpose of this $2,500,000 loan to Compagnie Marocaine de Credit et de Banque (CMCB) is to assist the growth of small business, especially export-related business, in Morocco. CMCB, a privately owned Moroccan financial institution, will match the AID loan funds with an equivalent amount of Moroccan Dirhams. AID will also provide a $50,000 grant to CMCB to permit it to obtain from U.S. institutions technical expertise in lending to small businesses in Morocco.

The AID loan proceeds will be held in a "collateral account" in a manner similar to the structure described above in the PATH and Ecuador projects. This loan structure permits CMCB to provide foreign exchange financing to its customers while reducing the financial risks associated with devaluation.

Development Impact

This loan will increase exports for small-scale Moroccan businesses and thereby generate significant amounts of foreign exchange. The growth of these small businesses will also create new job opportunities. The project broadens the export experience of an important private Moroccan bank while inducing it to serve a small-scale clientele not now being adequately served by the dominant government-owned banks.

E. APPENDIX

1. LOAN PORTFOLIO
   PRIVATE SECTOR REVOLVING FUND

Loan Name/Country/Project No.	Funding (million) (L) AID	(G)	Total	Leveraging Ratio	Rate	Terms Grace (yrs.)	Term	Late Pymt/ Default	Fees 5/ Facil.	Commit.	Util.	Cancel/ Prepymt	Disbursements 6/	Reflows 6/
BANCO DE DESARROLLO FINADE, S.A. (Dominican Republic) 940-0002.25	2.0	.05	4.0	1 of 2 1/	9.5% 2/	4	7	X/X	X		X	X/-		
SUBPRODUCTOS DE CAFE (Costa Rica, other) 940-0002.27	1.0	.05	3.0	1 of 3	11.5% 3/	2	10	X/X	X	X	X			
HEALTHLINK (PATH) CREDIT (Thailand and Indonesia) 940-0002.30 (Grant) 940-0002.31 (Thailand loan) 940-0002.32 (Indonesia loan)	2.5	.75	5.0	1 of 2 1/	10.0% 4/	5	9							
THAILAND LIVESTOCK MEAT PROCESSING (Thailand) 940-0002.24	2.5	.07	10.0	1 of 5	11.0%	2	10	-/X		X		X/X		
FINANCIERA DE GUAYAQUIL (Ecuador) 940-0002.36	1.4		2.8	1 of 2 1/	11.5% 3/	2	7	X/X	X		X			
FINANCIERA IBERO-AMERICANA (Ecuador) 940-0002.36	1.4		2.8	1 of 2 1/	11.5% 3/	2	7	X/X	X		X			
CARIBBEAN BASIN CORPORATION (CBC) (Caribbean-wide) 940-0002.41	1.2		4.8	1 of 4 1/	12.7%	5	5	-/X		X		X/-		
COMPAGNIE MAROCAINE DE CREDIT ET DE BANQUE (CMCB) (Morocco) 940-0002.34	2.5	.05	5.0	1 of 2 1/	9.5% 2/	1-1/2	5	-/X	X		X			

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 sub-borrowers' own funds, will increase the ratio by an estimated factor of 2-3.

2/ Based on 180-day Treasury Bills of approx. 9.5% as of 9/30/84.

3/ Based on 180-day Treasury Bills plus 2%.

4/ Based on LIBOR (about 11% as of 9/30/84 less 0.75%).

5/ 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 about 2% 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 undisbursed principal balance;

d. Utilization fee - charged the borrower for the guaranty service provided through using a collateral account; ranges from about 2.0% to .5% 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.

6/ No disbursements or reflows of principal or interest had occurred as of the issuance of this report due to the early stage of projects in the portfolio. Fees totaling $7,000 had been received and deposited.

E. APPENDIX

2. LOAN REVIEW BOARD
BUREAU FOR PRIVATE ENTERPRISE
AGENCY FOR INTERNATIONAL DEVELOPMENT

George M. Ferris, Jr., Chairman
Chief Executive Officer, Ferris & Company, Inc.
Washington, D. C.

Daniel J. Callahan, III
Vice Chairman, American Security Bank
Washington, D. C.

Lawrence K. Fish
Executive Vice President, The First National Bank of Boston
Boston, Massachusetts

John R. Petty
Chairman, Marine Midland Bank
New York, New York

Alexander C. Tomlinson
Director & Former Chairman, Executive Committee
First Boston Corporation
New York, New York

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