UNCLASSIFIED

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

ROCAP

PROJECT PAPER

EXPORT AGRIBUSINESS DEVELOPMENT/PROMOTION

AID/LAC/P-327

Loan Number:596-T-024
Project Number:596-0123

UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

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

Amendment Number

DOCUMENT CODE: 3

2. COUNTRY/ENTITY: ROCAP

3. PROJECT NUMBER: 596-0123

4. BUREAU/OFFICE: Latin America and the Caribbean — 05

5. PROJECT TITLE (maximum 40 characters): Export Agribusiness Development/Promotion

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 08 DD 31 YY 89

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

A. Initial FY 86 B. Quarter 4 C. Final FY 87

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

A. FUNDING SOURCE	FIRST FY 86 B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant)	( )	( )	( )	( )	( )	( )
(Loan)	(6,600)	( )	(6,600)	(15,000)	( )	(15,000)
Other U.S. 1.						
Other U.S. 2.						
Host Country LAAD-CA						3,000
Other Donor(s)						
TOTALS	6,600		6,600	15,000		18,000

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	C. 2. Loan	D. OBLIGATIONS TO DATE 1. Grant	D. 2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	E. 2. Loan	F. LIFE OF PROJECT 1. Grant	F. 2. Loan
(1) FN	118		150				6,600		15,000
(2)									
(3)									
(4)									
TOTALS							6,600		15,000

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

BR | BL | BF | INT

11. SECONDARY PURPOSE CODE

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

A. Code

B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

To expand non-traditional agricultural exports from Central America and Panama and increase levels of income in the economies of these countries.

14. SCHEDULED EVALUATIONS

Interim MM YY MM YY Final MM 09 YY 89

15. SOURCE/ORIGIN OF GOODS AND SERVICES

☐ 000 ☒ 941 ☒ Local ☐ Other (Specify)

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

17. APPROVED BY

Signature 1. [signature] 2. [signature]

Title 1. Controller

2. Director, ROCAP

Date Signed MM 07 DD 15 YY 86

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

MM 07 DD 17 YY 86

AID 1330-4 (8-79)

/1/

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

PROJECT AUTHORIZATION

Name of Entity	:	Latin American Agribusiness Development Corporation, S.A.
Name of Project	:	Export Agribusiness Development and Promotion Project
Number of Project	:	596-0123
Number of Loan	:	596-T-024

1. Pursuant to Section 103 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Export Agribusiness Development and Promotion project with the Latin American Agribusiness Development Corporation, S.A. ("LAAD"), involving planned obligations of not to exceed Fifteen Million United States Dollars (US$15,000,000) in loan funds ("Loan") over a three-year period from the date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the project. The planned life of project is three (3) years from the date of initial obligation.

2. The project ("Project") consists of the expansion of exports and private agribusiness investment in Central America, Belize and Panama.

3. The Project Agreement, which may be negotiated and executed by the officer to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority, shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate.

a. <u>Interest and Terms of Repayment</u>

LAAD shall repay the Loan to A.I.D. in U.S. Dollars within twenty (20) years from the date of first disbursement of the Loan, including a grace period of not to exceed five (5) years. LAAD shall pay to A.I.D. in U.S. Dollars interest from the date of first disbursement of the Loan at the rate of five and one quarter per cent (5 1/4%) per annum on the outstanding disbursed balance of the Loan and on any due and unpaid interest accrued thereon.

b. Source and Origin of Commodities, Nationality of Services

Commodities financed by A.I.D. under the project shall have their source and origin in the United States, other countries included in A.I.D. Geographic Code 941, and the country in which the particular subproject activity is located, except as A.I.D. may otherwise agree in writing. Except for ocean shipping, the suppliers of commodities or services shall have the United States, other countries included in A.I.D. Geographic Code 941, and the country in which the particular subproject activity is located as their place of nationality, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the project shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States or of the country in which the particular subproject is located.

c. Conditions Precedent to Disbursement

Prior to any disbursement under the Loan, or to the issuance by A.I.D. of any documentation pursuant to which disbursement may be made, LAAD will, except as A.I.D. may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., the following:

(1) An opinion of the Chief Legal Officer of LAAD or other counsel acceptable to A.I.D. to the effect that the Loan has been duly authorized by the Board of Directors of LAAD and duly executed on behalf of LAAD, and that it constitutes a valid and legally binding obligation of LAAD in accordance with all its terms;

(2) A statement of the names of the principal officers of LAAD and of any additional representatives empowered to act on behalf of LAAD, together with a specimen signature of each person specified in such statement;

(3) A plan for the evaluation of proposed subproject activities by LAAD or any Central American subsidiary of LAAD under the Project to assure that such proposed activities will produce economic benefits in areas where the proposed activities will be located, and contribute to the development of agribusiness systems or enterprises;

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

d. Covenants

(1) Project Evaluation. LAAD covenants and agrees that, except as A.I.D. may otherwise agree in writing, it will furnish to A.I.D., in form and substance satisfactory to A.I.D., a plan for project evaluation.

(2) Eligible Countries. LAAD covenants and agrees that, except as A.I.D. may otherwise agree in writing, funds made available under the Project shall be utilized for financing subproject activities only in the following countries ("Eligible Countries"): Belize, Costa Rica, El Salvador, Guatemala, Honduras and Panama.

(3) Limitations on Borrower.

Except as A.I.D. may otherwise agree in writing, LAAD covenants and agrees that neither LAAD nor any subsidiary or affiliate of LAAD will:

(a) Utilize A.I.D. Loan funds or any repayment of principal from subloans made from A.I.D. Loan funds to pay administrative or operating expenses of LAAD or of any subsidiary of LAAD;

(b) Make subloans to or equity investments in businesses or other activities in which any shareholder, officer or employee of LAAD or any subsidiary of LAAD has any financial interest;

(c) Maintain a reserve for bad debts of less than four per cent (4%) of its total subloan portfolio;

(d) Appoint as the Manager of LAAD's Central American subsidiary a person whose appointment has not been approved in advance in writing by A.I.D.;

(e) Declare or pay dividends on either common or preferred shares;

(f) Incur any indebtedness which would enjoy a position superior to the obligation incurred under the A.I.D. loan;

(g) Amend or modify its corporate charter, by-laws or operating plans or undergo any type of corporate re-organization.

(h) Use A.I.D. funds for the procurement of pesticides;

(i) Use A.I.D. funds to finance, directly or indirectly, the production or processing of citrus products, or support the export of citrus products from the region.

(4) Special Covenants.

Except as A.I.D. may otherwise agree in writing, LAAD covenants and agrees that:

(a) Prior to making a subloan in excess of US $500,000, LAAD will submit to A.I.D., in form and substance satisfactory to A.I.D., information with which A.I.D. may carry out a technical and financial review of the subloan to assure that the activities proposed therein are in conformity with Project eligibility criteria;

(b) LAAD will utilize repayments of subloans in conformance with the purposes of the Project;

(c) LAAD will submit to A.I.D., in form and substance satisfactory to A.I.D., a report each quarter during the life of this Agreement;

(d) LAAD will maintain a stockholders' equity position of not less than US$6 million over the life of the Project;

(e) LAAD will maintain a total debt to equity ratio of at least 2:1, and not more than 5:1, over the life of the Project, and covenants to use its best efforts to reach a debt to equity ratio of 3:1;

(f) LAAD will maintain over the life of the Project a monitoring and tracking system for measuring the Project's outputs and achievement of Project objectives in terms of volume of export sales, number of employees related to export sales, and socio-economic income related to small producer beneficiaries;

(g) LAAD will perform an environmental impact determination for each investment and subloan proposed under the Loan. For those projects determined to have a positive environmental impact, LAAD covenants to consult with the designated A.I.D. environmental official and obtain his or her assistance in determining the necessity for an environmental assessment and/or corrective measures.

(h) Provide counterpart funding of US $3 million over the life of the Project, to be derived from LAAD's retained earnings and to be disbursed at a rate of US $1 million per year.

Dwight Ink
Dwight Ink
Assistant Administrator
Bureau for Latin America and the Caribbean

Date: Sept 16, 1986

Clearances:

DAA/LAC, MButler	MB	Date	
GC/LAC, GADavidson	[illegible]	Date	9/3/86
LAC/DR, TBrown	T. Brown	Date	9-8-86
LAC/DR, ILevy	[illegible]	Date	9-8-86
LAC/DR, LKlassen	(Draft)	Date	
PPC/PB, TDailey	[illegible]	Date	9.4.86
LAC/CEN, OLustig	(Draft)	Date	
LAC/PRE, AWilliams	(Draft)	Date	
LAC/DR/RD, BRogers	(Draft)	Date	
LAC/DR, J. Hester	JSH	Date	9/4/86
LAC/DP, P. Sellar	PDS	Date	9/5/86

GC/LAC, PGJohnson/tim:647-9182:0472B:08-15-86

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ANNEXES

I. SUMMARY AND RECOMMENDATIONS

A. Executive Summary

The history of the Latin American Agribusiness Development Corporation (LAAD) in Central America and Panama (CA/P) dates back to 1971 when AID made its first loan to LAAD-Central America (CA) for $6 million. Subsequent to that, AID has made two other loans to LAAD-CA, one in 1975 for $5 million and again in 1981 for $6 million. In support of these three loans LAAD-CA has generated counterpart funds of approximately $12 million. The combined effect of AID support for LAAD-CA projects in the CA/P region has been an increase of approximately $50 million in agribusiness investments which have generated export sales of at least an equal amount, the generation of approximately 10,000 agribusiness-related jobs, and significant increases in the incomes of agribusiness owners, managers and workers, as well as rural producers.

LAAD-CA's success in promoting, financing and expanding agribusiness export development over the past 15 years in Central America and Panama can be attributed to its ability to identify entrepreneurs and ideas for agribusiness development; work closely with clients in developing and analyzing feasibility studies, providing management and financial guidance during the course of a loan; in utilizing efficient and effective loan processing and disbursement procedures; and lastly, LAAD-CA has the financial capacity to stay with a client during difficult economic times by providing timely loan restructurings and through the provision of marketing and other support services when necessary.

The high risk nature of LAAD-CA's agribusiness lending in Central America cannot be overemphasized. Seasonal changes in climate, demand for agricultural products (particularly non-traditional products) and export markets which are subject to the vagaries of consumer pricing and quality control standards, continue to play a large part in determining the cumulative risk associated with LAAD-CA's portfolio.

LAAD-CA's focus on agribusiness development in the CA/P region has traditionally been on new start-up and expanding agribusinesses and, at times, on additional financing to the same enterprises although in areas of new investment and innovation. The proposed new loan to LAAD-CA will build upon this approach, but in addition, will undertake an expanded volume of lending activity. Part of this new expansion will include equity financing, estimated at 10 to 15% of project loan funds. It is envisioned that more equity investments will enable LAAD-CA to better sustain its financial base of operation in the region.

During the project intensive review period, ROCAP undertook a financial analysis designed to address AID policy concerns regarding interest rates to private sector institutions. The analysis incorporated a comparison of LAAD-CA's operation with six other development finance companies (DFCs) in the region. LAAD-CA's financial structure, which does not include savings deposits, long-term certificates of deposits or other forms of debt instruments, and LAAD-CA's regional scope and different target market, set it apart from other DFCs in terms of risk and profitability.

Since LAAD-CA has much lower collateral requirements, provides longer term loans and can be more flexible in its selection criteria, it is thus in a higher risk category and has required a somewhat larger lending margin than other DFCs. In addition, LAAD's 15 year successful track record can be attributed in part to its prudent approach in building liquid assets and paying off a large amount of its commercial debt during the early 1980's. This period included a $2 million portfolio loss in Nicaragua, and other loan losses due to politically and economically unstable areas of the region. Because of LAAD-CA's financial structure, its debt to equity ratio, or leverage position, is at the conservative level of 1.6:1, and this will not allow the company to generate sufficient return on equity to pay AID a much higher rate of interest. Consequently, the proposed variable rate mechanism described in Section III. A., together with a decision to increase LAAD-CA's leverage position within reasonable bounds, has been designed to maximize the interest rate paid by LAAD-CA and minimize the degree of concessionality needed for LAAD-CA to continue to achieve the developmental results of its agribusiness export program.

The goal of the project is to lay the basis for long-term growth in Central America and Panama by removing financial, managerial and marketing constraints to non-traditional agricultural export growth.

Toward accomplishing this goal, the project's specific purpose is to expand non-traditional agribusiness exports in the region and increase CA/P income levels. The project will generate a substantial amount of foreign exchange to help alleviate balance of payments problems, as well as create employment opportunities and enhance economic activity in other sectors of the Central American and Panama economies.

The proposed three year AID loan of $15 million, and a LAAD-CA counterpart contribution of $3 million to be provided from retained earnings, will provide for total project funding of $18 million. LAAD-CA loan and equity investments are expected to be made at a rate of $6 million per year over the life of the project.

B. Recommendations

This Project Paper recommends approval of the Export Agribusiness Development Promotion Project. Authorization is requested for a $15.0 million loan to be disbursed over a three year life-of-project. The proposed obligation for FY 86 is $6.6 million, including $6.2 million in DA funds and $400,000 in reobligation monies. The Project Assistance Completion Date (PACD) is scheduled for August 31, 1989.

C. Summary Project Findings

Concluding a series of rigorous project analyses, the project is considered to be financially, economically, technically, administratively, institutionally and environmentally sound. LAAD-CA's pending subproject proposals will be more closely scrutinized and developed during the initial implementation stages of the project.

D. Summary Budget (US$000)

	AID	LAAD-CA	TOTAL
Year 1	$ 5,000	$ 1,000	$ 6,000
Year 2	$ 5,000	$ 1,000	$ 6,000
Year 3	$ 5,000	$ 1,000	$ 6,000
TOTAL	$15,000	$ 3,000	$18,000

E. Project Development Team

ROCAP Project Design Committee

J. Michael Deal , Chief, Planning and Project Design
Michael Lofstrom , Project Development Officer
Julian Heriot , Regional Economist
Arthur Warman , Private Sector Advisor
Reynold Bloom , Assistant General Development Officer
Alejandro Pontaza, ROCAP Financial Analyst
Frank Zadroga , Regional Environmental Officer
Robert Van Horn , Regional Procurement Officer

ROCAP Project Review Committee

Nadine Plaster , Director
John Eyre , Deputy Director
Michael Deal , Chief, Planning and Project Design
Richard Delaney , Program Officer
Richard Goughnour, Controller (Acting).

Consultants

Booz Allen Hamilton, Inc.
The Inter-American Management Consulting Corporation
Dr. Robert Vogel

LAAD-CA

Mr. Thomas Mooney
Mr. Francisco Lacayo

USAID Bilateral Missions

USAID/Costa Rica , Maureen Dugan
, Vincent Schmack
, Richard Rosenberg

USAID/Honduras , Margaret Membreño

USAID/El Salvador, Greg Huger
, Ernesto Altshul

USAID/Panama , Frank Skowronski
, Kermit Moe

USAID/Belize , Peter Lapera

USAID/Guatemala , Gary Vaughan
, Mary Ott
, Dan DeVito

II. PROJECT RATIONALE AND DESCRIPTION

A. Rationale

1. Background

In 1979, the CA/P region entered one of the worst economic recessions in its history. From 1979 to 1983, real per capita GDP for four countries of the region - Guatemala, El Salvador, Honduras and Costa Rica - declined some 16%. The origins of this crisis are well known: a world-wide recession, increased oil prices, falling commodity prices, political turmoil, a reduction in net capital flows and a near collapse of regional trade.

In 1984 - 85, the countries of the region collectively experienced a modest recovery, but the problems that have plagued their economies since 1979 are still present. Coffee prices have recovered, but most other commodity prices -- principally sugar and cotton -- remain in the doldrums and flows of long-term private foreign capital, one of the major factors behind the dynamism of the 1960s and the 1970s, have been very slow in returning to the region.

The most troublesome aspect of this economic crisis has been the fall in productive investment as a proportion of GDP. Even though in recent years it has declined in real terms, public sector investment has not suffered proportionately. As a group, the CA/P governments have continued to show high rates of investment expenditures through 1983, supported in large part by continuing official foreign assistance.

But the decline in private sector investment, from both domestic and foreign sources, has contributed to a substantial cut in the stock of productive capital in the region. In the private sector throughout the region between 1980 and 1983 (less Nicaragua), there was a US$1.4 billion (in 1970 prices) shortfall in investment. This figure reflects replacement investment that did not occur and increases in plant capacity that would have been necessary to expand the GDP in real terms beyond the 1980 level.

A regional private sector analysis, carried out in 1985 for ROCAP by Arthur D. Little, Inc., points out that private investment in the CA/P region continues at very low levels, even though the rate of decline in private capital formation has been reduced in several countries in 1983 and 1984. For example, in 1983 and 1984, private investment increased approximately 5% annually in Costa Rica and El Salvador, but this could not compensate for the declines of over 20% annually in 1981 and 1982. In Honduras, the increase in 1983-84 has been between 1-3% after declines of over 30% annually for several years. Guatemala suffered a decrease of 23% in 1983. Panama also experienced a sharp decline in private investment in 1983 and 1984. Based on these statistics, it is evident that much is left to be done to bring private investment back to the levels required to sustain economic growth.

The National Bipartisan Commission on Central America (NBCCA) focused on the issue of formation of private investment capital, estimating that to achieve 1980 per capita income levels by the year 1990, $21 billion in aggregate external financing would be needed by the five countries during the 1984-90 period. The NBCCA report recognized that approximately half of the external financing must be met from sources other than AID, and called for increased assistance from other donors and the private sector. However, if these levels of investment expenditure are to be achieved, it is necessary that the capacities of existing financial institutions be fully utilized, and that investment services and new areas for long-term development finance be created.

This is particularly true for the agricultural sector in that investments in this sector hold the most promise for export diversification. Not only are more financial resources needed for this sector, but the increased capacity of financial intermediaries is required in order to effectively channel these resources to potential subborowers. The demand analysis section of this document will show that US$1.2 billion in new financial capital will be required to meet the Jackson Plan goal of doubling non-traditional agricultural exports to the U.S. market. The LAAD-CA project can play an important role in contributing to the achievement of this goal.

2. Project Strategy

The goal of the project is to lay the basis for long-term growth in Central America and Panama by removing the financial, management and marketing constraints to increased growth in non-traditional agricultural exports. In striving to achieve this goal, the project's purpose is to expand non-traditional agribusiness exports in the region and thereby increase incomes, generate additional foreign exchange, create employment opportunities and indirectly enhance many other sectors of economic activity in the CA/P region.

Loans will be made to new start-up and expanding agribusiness projects which serve to stimulate economic activity directly through the generation of foreign exchange and the creation of jobs, and indirectly by helping to boost other sectors of the economy such as transportation, packaging, marketing and distribution. Repeat loans will be made to subborrowers who can demonstrate that a new investment will have an increased developmental impact in addition to fostering other economic activity.

It is anticipated that the proposed new loan to LAAD-CA will directly contribute to achieving developmental objectives in the CA/P region by generating foreign exchange earnings through export sales of at least $27 million, through the creation of approximately 3,600 direct jobs related to agribusiness export development, and by increasing the disposable incomes of agribusiness subborrowers, employees of subborrowers, small and medium size agricultural producers, and of firms and individuals indirectly involved in food processing operations, including transport sectors, post-harvest handling and marketing.

Current demand for LAAD-CA financing in the region is conservatively estimated at $25 million. New areas of non-traditional agricultural export products will include fresh fruits and vegetables, and frozen product as well as processed foods. Projects involving the export of ornamental plants and cut flowers, cardamom and cashews, and export products which include new technology advances in fish production and beef processing will also make up a part of LAAD-CA's target market.

a. <u>LAAD-CA's Role in the Region</u>

LAAD-CA is a development finance institution with more than 15 years experience in the CA/P region in financing long-term loans for agribusiness export entrepreneurs. LAAD-CA has a proven capacity to identify viable enterprises and risk-taking individuals who are capable of managing and administering successful agribusiness export companies. LAAD-CA's innovative approach to project development includes working closely with subborrower clientele and providing assistance in management and marketing when needed. Part of LAAD-CA's appeal to its newer and higher risk clientele has been its financial flexibility in restructuring a loan in a timely way to allow a subborrower the means to overcome short-term cash flow and management problems.

LAAD-CA has developed a loan processing and disbursement system which is less complicated and more efficient than that of other DFCs in the region. LAAD-CA collateral requirements are less stringent, and LAAD-CA can normally guarantee loan authorization of a qualified subborrower within a period of 30 days, whereas other DFCs and commercial banks typically can take from 3-6 months to process loans and often require collateral pledges in excess of 200%.

In addition, LAAD-CA has and can continue to serve as an important role model for other DFCs in the CA/P region. By developing sound agribusiness loan and equity projects, and working with clients in an efficient way, LAAD-CA has set a standard for other institutions. Rather than viewing LAAD-CA as another competitor providing term financing for agribusiness clients, other DFCs are more disposed to welcome LAAD-CA and look to it as a source of information and as a potential partner in development.

LAAD-CA has provided technical assistance to DFCs in Costa Rica, Honduras and Panama, as well as referred agribusiness clients to these institutions in an effort to assist their development progress and help them to provide financial services needed to meet the additional demand for agribusiness term lending. Under the new proposed loan, it is contemplated that over a three year LOP the USAIDs of El Salvador, Costa Rica, Belize and Panama will attempt to establish some form of participatory/joint funding agreement between their respective development finance institutions and LAAD-CA. These joint arrangements will allow LAAD-CA to more fully employ project identification and management expertise, while at the same time leverage additional agribusiness funding sources for the region.

In selecting LAAD-CA as the prime vehicle for channeling new agribusiness investment funds into the CA/P region for the promotion of non-traditional exports, the Mission also considered the following points related to LAAD-CA's niche in the region.

LAAD-CA has demonstrated its ability to survive financially in Central America during a period which has greatly weakened, or in some cases completely deteriorated the financial condition of other development banking institutions of the region. LAAD-CA's policy of investing retained earnings in building liquid asset reserves has allowed LAAD-CA a financial cushion needed to overcome some of the risks of agribusiness lending, including loan portfolio losses and shortages of foreign exchange among Central Banks in the region. Subsequent to 1982, LAAD-CA has managed to capitalize itself and establish a firm financial base despite the continued high risks associated with agribusiness lending in the region.

There are other private development finance institutions which are currently making dollar and/or local currency loans for non-traditional agribusiness export development in the CA/P region. Examples of these institutions include: COFISA, PIC and BANEX in Costa Rica, and the USAID/Honduras-supported DFC (FIA), which eventually will be in a position to make loans in dollar-denominated amounts for agribusiness export operations. The Central American Bank for Economic Integration (CABEI) is a second-tier bank, which has received ROCAP financing of $15 million to be on-lent to private commercial banks, DFCs and cooperatives for the purpose of financing agribusiness term loans.

Without exception, however, all of these other operations are <u>not</u> now doing the type of lending which LAAD-CA has done successfully for 15 years. LAAD-CA's loan portfolio is comprised solely of high risk, long-term (5-7 years) agribusiness export loans without any diversified shorter term, more highly secured loans needed to minimize portfolio risk. Unlike other institutions which are able to assume other forms of debt financing such as bonds, savings deposits or local currency commercial debt, LAAD-CA requires a higher lending margin and lower leverage position to minimize to some degree its portfolio risk. LAAD-CA's low profile yet aggressive approach to identifying and developing agribusiness export clientele on a regional basis is also unique to Central America and Panama. A majority of LAAD-CA's suborrowers are unable to meet the credit worthiness and collateral requirements of CA/P commercial lending institutions, and are also inclined to apply for LAAD-CA loans because of LAAD-CA's efficient and fast loan processing procedures and ability to stay in close contact with its clients during the course of a loan.

LAAD-CA's innovative foreign exchange retention agreements with three Central Banks in the region (Guatemala, El Salvador, Honduras) have allowed subborrowers to make a rational decision in electing to assume the risk of a dollar denominated loan. Although the foreign exchange risk of borrowing dollars is still present, demand estimates for LAAD-CA loans clearly demonstrate that subborrowers are willing to assume this risk, which they perceive is offset by: 1) doing business with an institution that employs less complex and demanding loan processing and disbursement procedures; 2) their need for dollar financing secured in a fast and timely way; and, 3) although less tangible but equally important, the factor of LAAD's "approach" to working with its agribusiness export clients.

The total demand for LAAD-CA loans, and the relative scarcity of other institutions capable of replicating LAAD's overall performance and developmental impact in the CA/P region, together appear to provide sufficient justification for LAAD-CA's role and future presence in the region.

Based on the financial analysis carried out during the Project Paper's intensive review, LAAD-CA's costs tend to be higher across the board when compared with other "financieras" of the CA/P region (i.e. operational costs, reserve for loan losses), however, its return on equity has been significantly lower. Part of this discrepancy can be explained by LAAD-CA's overall higher risk lending practices and subborrower clientele who often would not qualify for loans from other institutions. However, an equally important reason is based on LAAD-CA's financial structure which has considerably less leverage than other DFCs. Given LAAD-CA's portfolio concentration of long-term agribusiness loans, and lack of a diversified base of financial resources, its leverage position is at least 5 times lower than other DFCs in the region. By increasing LAAD-CA's leverage position from the current 1.6:1 to approximately 3:1, LAAD-CA would thus be able to reduce its spread requirement and be in a better position to pay AID a rate of interest which more closely approximates the cost of funds to the U.S. Treasury (See Section III. A, Financial Analysis).

LAAD-CA has required some degree of concessional financing given the nature of its "developmental costs". Nevertheless, by means of higher leverage and a greater return on equity, LAAD-CA could continue to pay its shareholders an acceptable dividend on their investment and at the same time minimize the degree of concessionality needed to carry out the developmental objectives of the project. To guarantee LAAD-CA shareholders a fair and acceptable return on their investment (currently a 4% dividend calculated on paid-in capital), LAAD-CA must earn a return on equity of at least 12%. Under the proposed variable interest rate formula, if LAAD-CA earns more than a 12% return on equity in any given year (and this will become more probable as LAAD-CA increases its leverage to the 3:1 mark), then additional earnings will be paid back to AID in the form of interest until such time as the full cost of funds to the U.S. Treasury has been recovered.

The proposed variable rate mechanism for the AID interest rate charged to LAAD-CA will be based on LAAD-CA's gross income figure and return on equity calculated at the end of their accounting cycle, and will be adjusted according to LAAD-CA's normal, certified procedures for allocation of expenses.

b. The Demand for Agribusiness Loans

Guidance to the Mission on project design requested that an analysis be undertaken of the demand for loan funds offered by LAAD-CA under this project. In accordance with this, LAAD-CA has prepared a roster of potential borrowers to be considered for project selection. Subsequent to this, ROCAP conducted a demand analysis of potential LAAD-CA subborrowers in the Central America/Panama region to verify and gauge the extent of potential demand for LAAD-CA loan funds. The conclusion of these two exercises is that potential demand for LAAD-CA subloans most likely exceeds US$25 million. (See Annex I).

These estimates are based on proposals which have been submitted to LAAD-CA. LAAD-CA has already taken steps to analyze the proposals and contact the principals for further discussion. LAAD-CA's opinion of total estimated demand as presented in Annex I is that it represents projects which LAAD-CA would consider financing. In addition, LAAD-CA expects the current $25 million in viable project demand to increase by at least $10 million per year in additional loan requests to be financed once other sources of funds become available.

The Mission finds this survey approach, however, somewhat unsatisfactory in that it does not answer key questions with respect to credit demand. The primary issues are: (1) will the project channel financial resources to a viable sector of economic activity, and, (2) will this be effected through a capable, efficient institution? If the project design meets these two criteria, then it can be expected that the supply of credit will assist in creating its own demand.

The traditional method of assessing credit demand (i.e., discussions with export associations and entrepreneurs, banks) is not always accurate since no one person or institution can realistically state whether he or she will accept a loan based on a hypothetical line of credit without knowing the terms of the loan, -- information which may not be available at that time -- what the specific project involves as well as the expected profitability of the project. Such information is rarely available to the interviewer/interviewee; consequently, the response is generally unreliable.

As such, the Mission will complement the traditional demand analysis by focusing on that sector of economic activity that will be the target of this project, the long term growth potential, the amount of capital required to realize this potential, and on the sources of medium-term financing that are currently available to meet the long-term demand for financial capital.

The target sector for this project consists of producers and manufacturers of non-traditional agricultural products for markets outside the Central America and Panama region. In 1981, this sector was generating some US$1 billion in export sales, with approximately one third of those sales reaching the U.S. market. With falling demand in 1982 and 1983, and with only a slight recovery in 1984 and 1985, this level remained unchanged at the end of 1985. Projected out for 1986, the target sector will export approximately US$400 million to the U.S. market alone.

The project's target sector is potentially the most dynamic in the region. Climate, soil conditions, entrepreneural skill and proximity to high income markets give the region a distinct comparative advantage in the production and export of non-traditional agricultural products. In short, non-traditional agriculture holds the most promise for the diversification of the productive sectors of the countries of the region. It is reasonable to assume that growth will be rapid when financial resources are made available to this sector.

The potential for non-traditional agricultural exports was recognized by the Jackson Plan, and targets set under this Plan called for the growth of exports to the U.S. to reach US$1 billion by 1989, or, a growth rate of 25% annually from 1986 to 1989. If we accept this target as a measure of market potential, a rough calculation can be made of the capital requirements that are necessary to bring about this increase in output. Assuming an incremental capital to output ratio of three (a reasonable assumption for agriculture), the projected capital requirements would be as follows:

Table No. 1

Non-traditional Agricultural Export Sector:
Output and Capital Requirements

(In US$ Millions)

	1985	1986	1987	1988	1989	TOTAL
Output	400	503	632	795	1000	
Change in Output	-	103	129	163	205	
Capital Required	-	309	387	489	615	$1,800

In order to reach only a part of its potential, the target sector would require US$1.8 billion in new capital over the next four years.

Given this requirement, we can now address the potential sources of financial capital. Based on a survey throughout the region by ROCAP and consulting personnel, the Mission has been able to project the amount of term financing expected to be available over the next three to four years for the project's target sector:

(In US $ Millions)

Guatemala	
Commercial bank local currency loans	10
Financiera local currency loans	25
El Salvador	
Commercial bank local currency loans	15
USAID local currency loans	50
Honduras	
Commercial bank local currency loans	15
IDB and IBRD local currency loans	50
USAID local currency loans	50

Costa Rica

Commercial bank local currency loans	15
Financiera dollar loans	15
USAID local currency loans	50

Panama

Agricultural loans	15
USAID small industry loans	25
TOTAL	$335

Of course, the actual amounts will vary depending on lending activities and the future resource base of these financial intermediaries. Nonetheless, we can still conclude that existing financial institutions will only be able to provide a fraction of the financial capital requirements of the target sector of the project.

The residual financial needs, i.e., the difference between US$1.8 billion in demand and US$335 million in existing supply, would necessarily come from a variety of sources, including: retained earnings; parallel credit markets; borrowing from family and friends; joint ventures with foreign partners or simply direct foreign investment. Many of these, however, are not substitutes for borrowing from financial intermediaries, but are sources of last resort or sources of financial capital when term lending from the formal financial sector is not available.

Based on the project's survey of potential borrowers and financial intermediaries, and given the additional analysis of global demand and projected supply, the Mission concludes the project will channel financial resources to a dynamic sector, one whose likely demand for financial capital will greatly exceed the loan and equity capital provided by LAAD-CA over the life-of-project.

LAAD-CA has demonstrated its capacity to aggressively seek loan opportunities in the expanding agribusiness export sector. In many ways, LAAD-CA has performed the role of a European Merchant Bank or an American Investment Bank, in that it evaluates entrepreneurial skill and management abilities, assists in the feasibility studies of the loan project and often provides management assistance during the early stages of start-up operations. In essence, LAAD-CA is a viable institution capable of carrying out the objectives of the project.

3. Relationship to AID and ROCAP Strategy

The Central America Initiative (CAI), launched by the Reagan Administration in response to the findings of the NBCCA, accords high priority to increasing non-traditional exports as an important means for meeting the NBCCA goal of laying the basis for long-term economic growth. The NBCCA Report recognized that a resumption of economic growth in Central America requires a substantial boost in foreign exchange earnings, but that world demand for the region's traditional export commodities would not provide a stable and adequate source of foreign exchange for such growth. Previous LAAD-CA projects have been particularly effective in supporting agribusiness investment in Central America and Panama. The proposed project will finance exclusively agribusiness projects aimed at exporting non-traditional agricultural products. As such, it is a cornerstone in ROCAP strategy to remove the primary financial and management constraints to non-traditional export growth as noted in the FY 87-88 ROCAP Action Plan. The project will also have significant direct and indirect income and employment effects, as explained in other sections of the Project Paper.

The project responds directly to the "Expanded Trade Opportunities" recommendation in the NBCCA Report. Specifically, AID loan resources will provide a means for CA/P countries to diversify their export bases in the agricultural sector and thus generate critically needed foreign exchange. The Report also encouraged the greatest possible involvement of the private sector in Central American stabilization and growth and placed particular emphasis on improving rural incomes and living standards. As evidenced by prior AID loans to LAAD-CA, the project will leverage additional private sector capital to the agribusiness sector, improve rural employment and income opportunities, and promote these objectives through expanded private sector investment. Finally, LAAD-CA's recognition that over time it must increase its equity financing role to promote its longer-term growth as a corporation, is also responsive to NBCCA recommendations that the private sector play a major role in the long-term growth of Central America. In sum, building upon its past impressive achievements, LAAD-CA, through this project, is in a strong position to make a direct and positive contribution to the Central American Initiative.

4. Relationship to ROCAP Private Sector Strategy and Bilateral Projects

a. In support of the NBCCA goals of laying the basis for long-term growth and increasing equity and broad participation in development, ROCAP's private sector strategy seeks to stimulate private capital mobilization, investment and exports. This strategy is being implemented through support to regional institutions, promotion of financial intermediation and through related private sector support services developed under discrete project interventions.

In line with ROCAP's FY 1987-88 Action Plan, support for private sector initiatives on the part of regional organizations is based upon their general quality of work, and quality and continuity of their professional staffs which often do not exist at the national level. In addition, these institutions are highly specialized and have sources of international funding and technical assistance suitable for promotion of private sector growth. Examples include the private sector lending and portfolio rehabilitation activities at CABEI, quality control and industrial energy efficiency efforts with ICAITI and management and export training at INCAE. The proposed loan to LAAD-CA is a continuation of AID support to a regional development finance institution which has performed effectively on a region-wide basis.

In the area of financial intermediation and the leveraging of external capital into the region, the LAAD-CA project has been developed in line with other ROCAP initiatives as a key means for providing longer-term financing for non-traditional exports. The current $50 million ROCAP loan with CABEI has proven to be an important stimulus for the financial recovery of the bank, and is serving to mobilize new external resources to the region which are primarily being invested in industrial recovery and agribusiness projects. Short-term credit for export financing being provided under the BLADEX lending program, while facing some implementation problems, is filling the unmet demand for short-term (30-90 day) pre-export financing which is also being provided for under several bilateral programs of a similar nature.

The proposed loan program with LAAD-CA is expected to benefit from other ongoing and planned ROCAP activities such as the new Non-traditional Agricultural Export Support Project which will provide production, marketing and computer information access to clients who potentially could qualify as sub-borrowers of LAAD-CA. The proposed FY 1986 ROCAP Regional Transport Study will identify transport constraints to non-traditional exports as well as propose cost-effective, short-term interventions. It is expected that the Transport Study will enhance LAAD-CA's subborrower feasibility studies by opening new means of distribution and transportation and therefore enable potential exporters and distributors to generate an increased volume of export sales. Other examples of areas to be covered under the transport study include short-term analyses of market identification, product quality control studies and applications, export promotion and taxation policies in such fields as market segmentation and pricing.

b. Each of the USAID Missions in the region currently has in the design stage or is implementing a non-traditional agricultural export project of its own. This reflects not only the need for greater foreign exchange earnings, but also recognizes a need to broaden the agricultural base to more fully include non-traditional agricultural production.

Examples of the types of ongoing or proposed bilateral initiatives include the following: (1) USAID/Costa Rica: local currency generated lending programs, Private Investment Corporation (515-0194); Agricultural and Industrial Reactivation (515-0223); and Agricultural Export Expansion (515-0190); (2) USAID/El Salvador: various ESF supported activities, Agricultural Reform (519-0265), Agricultural Reform Financing (519-0307), and Rural Financial Markets (519-0137); (3) USAID/Guatemala: new ESF generated local currency activities, Agribusiness Development (520-02[illegible] Small Farmer Diversification (520-0255) and Cooperative Strengthening (520-0286); (4) USAID/Honduras: Export Development and Services (522-0207), Agricultural Marketing (522-0271), Honduran Agricultural Research Foundation (522-0249), and Agribusiness Investor Support (522-0241); and (5) USAID/Panama: Agriculture Cooperative Marketing (525-0222), Private Sector Export Finance (525-0261), Agribusiness Development (525-0246) and Livestock Production and Marketing (525-0288).

While many of these projects are in initial implementation or planning stages, the proposed LAAD-CA project is complementary in that it will provide dollar term lending as opposed to local currency financing, will operate outside of the monetary policy constraints of national level DFCs and will not be limited in sub-loan size or terms of lending as many of these other non-traditional export projects are.

In developing and/or implementing bilateral projects, many AID Missions have asked LAAD-CA for support. Frequent contact between bilateral Mission staff and LAAD-CA personnel has led to a closer working relationship, one which will serve to reinforce LAAD-CA's operations and bilateral AID programs in each of the countries of the region.

B. Project Objectives, Selection Criteria and Beneficiaries

The basic objectives of the project in descending order of priority are the following: 1) to increase incomes through the development and expansion of agribusiness exports from Central America and Panama to extra-regional markets; 2) to generate increased amounts of foreign exchange for the governments of the CA/P region as a means of alleviating balance of payments deficits; 3) to create job opportunities through increased investment in agribusiness exports including new plant and equipment, new start-up industries, expanded production and to some extent increased working capital investments; and 4) to stimulate and enhance economic activity in other sectors of the CA/P economies besides agribusiness, such as transportation, marketing, production and post-harvest handling.

The minimum subborrower selection criteria is that each agribusiness be involved in the extra-regional export of products that are non-traditional in nature. All LAAD-CA projects will serve to generate foreign exchange earnings and will have an impact on creating direct and indirect employment opportunities in the region.

The primary components of LAAD-CA's selection criteria for the proposed new loan are: the subborrower must be an agribusiness exporter of products that are considered non-traditional in nature (i.e. any agribusiness related product other than sugar, bananas, coffee, cotton or beef); subborrowers must have at least 25% of other sources of capital invested in the total project, which therefore allows LAAD-CA to finance up to 75% of the total project costs; a qualified subproject must have an existing or potential backward linkage to low income small producers or manufacturers in the CA/P region; the project's employment impact must be apparent, and although this has been a subjective factor in the past, LAAD-CA's top priority loans under the new project will all include a significant amount of employment generation; and another key selection criteria has to do with LAAD-CA's ability to identify and work closely with entrepreneurs in the CA/P region -- that is: LAAD-CA's ability to seek out individuals who can successfully assume the high risk proposition of developing agribusiness export projects, and who can withstand the demands of this work over the longer term. Additionally, the potential for replication of a subborrower's economic activity, either on a smaller or larger scale, will also enter into LAAD-CA's selection criteria for qualified subborrowers.

LAAD-CA's target beneficiary group under the new loan will focus on entrepreneurs who are currently exporting agribusiness products, as well as new individuals and groups that are looking to undertake new agribusiness export development projects. Besides the principal owners of these enterprises, the project will benefit the company's mid-level management personnel and working and production staff, who will benefit from loan activities through salary benefits and a greater potential for sharing in company profits. Over the life of the project, approximately 3600 new jobs will be created based on the formula of one job for every $5000 of project loan funds and total project funding of $21 million. Secondarily, the target beneficiary group will also include both producer associations and small farmers and fishermen who will provide the subborrower agribusinesses with a supply of raw products and materials. Increased product sales and likewise enhanced earnings will generate benefits and linkages directly to these producer groups.

Indirectly, an array of private enterprises will also benefit as a result of the project. Other economic sectors in the CA/P region and their corresponding workers will constitute subordinated beneficiaries; such as transportation and post harvest handling personnel, and marketing and manufacturing professionals and staff.

An additional benefit of a macro-economic nature derived from the project will be the foreign exchange generated as a result of sub-loans. It is projected that foreign exchange generated from non-traditional agricultural export sales will be equal to 1.5 times total project funding of $18 million, or approximately $27 million over the three year life of project.

Quantification of the above benefits will take place through the project's monitoring and evaluation plan described in Section V. of the Project Paper.

III. PROJECT ANALYSES

A. Financial Analysis

A preliminary analysis of the proposed ROCAP loan to LAAD-CA was carried out last November by Booz-Allen Hamilton, Inc. The analysis served to document LAAD-CA's financial position and assessed a cross section of LAAD-CA's sub-borrowers as to their export operations, impact on development and return on investment. The following analysis focuses on the specific issue of the gross spread required by LAAD-CA to conduct its lending operations, and presents a dynamic/comparative analysis of LAAD-CA's earnings profile as compared with other financial intermediaries currently operating in the CA/P region. The analysis seeks to determine the interest rate which should be charged to LAAD-CA under the proposed ROCAP loan, and explains why LAAD-CA has required a degree of concessionality to a market rate of interest (rate equivalent to the cost of money from the U.S. Treasury).

LAAD-CA's financial statements are compared over a 10 year period, and a series of key financial indicators are derived for each year. The following assessment compares LAAD-CA's 1985 financial figures with that of six other development finance companies operating in the Central American region. (See Annex E). Intensive in-country interviews were conducted with the management of these financial institutions in order to determine the correct basis for comparison with LAAD-CA operations.

Following the financial calculations and as a result of the analysis, certain findings were discussed with LAAD-CA management. Several meetings were held at LAAD-CA's offices and a concensus regarding loan structure emerged from these discussions.

In addition, projections of LAAD-CA's financial statements were prepared using different assumptions that could be tested under the loan agreement. The results of this sensitivity analysis were also discussed with LAAD-CA's management, and a series of final recommendations were agreed upon.

The fundamental conclusions of the financial analysis and comparison with other Development Finance Companies are:

1. LAAD-CA's relatively large gross spread on loan operations, and need for a degree of concessionary financing, are a direct result of LAAD-CA's low leverage position in its financial structure.

2. By increasing LAAD-CA's leverage position and by means of employing a variable interest rate mechanism, the degree of concessionary funding to LAAD-CA can be minimized.

Major Findings:

Yield on Gross Loan Portfolio. In order to determine LAAD-CA's yield on earnings generated directly from the gross loan portfolio, the interest and other loan-charged income such as loan related fees and penalty interest related to loans, were totaled and computed against the average balance sheet figures for the gross loan portfolio for each year. LAAD-CA's yield on its portfolio increased steadily from 9.53% in 1977 to 14.02% in 1981. After 1981, the yield on the gross loan portfolio declined erratically during the next 2 years to 11.58%, and stabilized at 12.67% p.a. in 1985. Among the reasons for the decline in the yield during 1983 and 1984 was the sudden increase in non-accrual loans brought about by the Nicaraguan situation. Average yield on the loan portfolio during the ten year period under study was 12.28%. On a weighted-average basis, where the rate of return in the latter years is emphasized, a yield of 12.34% was determined.

Yield on Equity Investments. LAAD-CA's rate of return on equity investments was particularly low during the entire period under study. The highest yield was achieved in 1978 with a rate of return of 6.06%. During 1984, LAAD-CA actually lost money on its equity investments and achieved a negative rate of return of 2.69%. On average, for the 10-year period under study, LAAD-CA achieved a 3.35% rate of return on its equity portfolio and, on a weighted-average basis, the rate of return was 2.2% p.a.

Yield on Liquid Assets. Yield on liquid assets has fluctuated from a low in 1978 of 11.19% to a high in 1984 of 15.6%. Average yield for the period was 13.5% and the weighted-average yield was 13.7%. Currently, LAAD-CA's yield on liquid assets has dropped considerably to 7-1/2%.

Following the Nicaraguan crisis and the economic turmoil that prevailed throughout Central America during late 1980 and early 1981, LAAD-CA began to accumulate significant reserves in liquid assets and at the same time began to reduce its loan portfolio. Figure 1 shows the relative trends of liquid assets, gross loan portfolio, and total assets during the period in question. Among the reasons for the shift in total asset composition are the following:

1. A desire on the part of LAAD-CA to improve its liquidity position in light of:

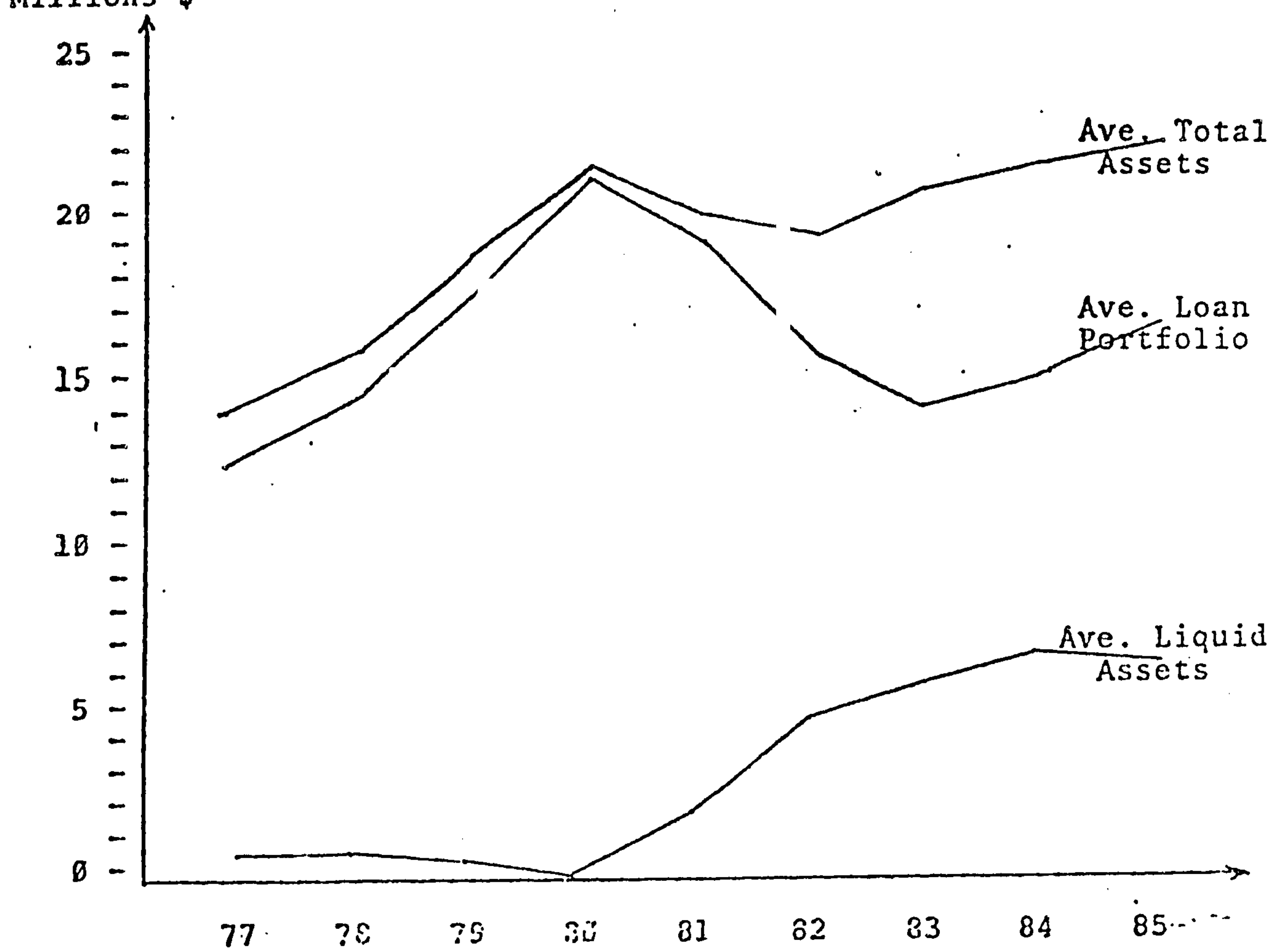
   A. Liquidity requirements necessitated by an increase in short-term commercial bank debt beginning in 1979 and peaking during 1980 to a level of $2.249 million. Moreover, LAAD-CA perceives commercial bank lenders to be anxious about their loans to LAAD-CA and capable of demanding payment unexpectedly. Because of this perception and a LAAD-CA policy of always being in position to make two payments to AID according to LAAD-CA's amortization schedule, LAAD-CA has thus maintained a high level of liquidity to meet debt service payments.

   B. During this same period many central banks were unable to provide foreign exchange to LAAD-CA borrowers so that normal payment of principal and interest could be made on their loans. As a result of this increased sovereign risk LAAD-CA was forced to build up its liquidity to offset the uncertainty of hard currency receipts from the various central banks in the region.

2. Because of the economic turmoil prevailing in the Central American area following the Nicaraguan crisis, fewer entrepreneurs were willing to begin new projects or to borrow new money and, consequently, loan demand fell. At the same time in the midst of uncertainty LAAD-CA's normal growth and expansion also declined.

<u>Yield on Net Earning Assets</u>. Yield on the net earning assets of LAAD-CA increased from a low of 9.51%, in 1977, to a high in 1981 of 15.65%. In subsequent years the yield on net earning assets stabilized at around 14.6%. Therefore, the average yield on net earning assets was 13.41% and, on a weighted-average basis, was 13.97%.

FIGURE 1


Millions $
25
20
15
10
5
0
Ave. Total Assets
Ave. Loan Portfolio
Ave. Liquid Assets
77
78
79
80
81
82
83
84
85

Yield on Total Assets. The yield on total assets parallels the earning curve for the yield on net earning assets (above), averaging 12.71% over the period and 13.17% on a weighted-average basis. There is a relatively small spread of roughly .6% to .8% between the yield on net earning assets and the yield on total assets which indicates a fairly high level of earning efficiency in the total asset composition of LAAD-CA.

Overall Spread Analysis Based Upon Total Assets of LAAD-CA. On an average basis, over the period from 1977 to 1985, LAAD-CA's return on total assets was 12.71%. During this period their average cost of funds, as a percentage of total assets, was 3.90%. This yields an average gross spread of 8.81% p.a. On a weighted-average basis the yield on total assets was 13.17% and the cost of funds, as a percentage of total assets, was 3.62%. This yields a gross spread of 9.55%. These figures are higher than the ones in the Booz-Allen Hamilton report primarily because of the use of average total assets rather than year-end total assets in the calculations.

FIGURE 2

LAAD-CA SPREAD ANALYSIS (% OF TOTAL ASSETS)

	1977	1978	1979	1980	1981	1982	1983	1984	1985	Average	Weighted Average
Yield on Total Assets	9.2	10.0	11.5	11.6	12.8	14.7	13.7	13.7	13.6	12.7	13.2
Cost of Funds	2.4	2.5	3.2	5.1	5.5	5.6	3.7	3.1	2.6	3.9	3.6
Gross Spread	6.8	7.5	8.3	6.5	7.3	9.1	10.0	10.6	11.0	8.8	9.6
Operating Expenses	2.5	2.8	2.7	2.6	2.6	3.0	3.1	3.4	3.8	3.0	3.2
Provision for Loan Losses	1.1	1.5	2.3	1.8	1.8	3.0	3.1	1.9	1.8	2.1	2.1
Net Spread (Net Income)	3.2	3.2	3.3	2.1	2.9	3.1	3.8	5.3	5.4	3.7	4.3

LAAD-CA versus other development finance companies in the region

It is extremely difficult to compare the lending operations of LAAD-CA with that of other institutions that operate in the area. In general, each one of the entities that were interviewed have their own specific characteristics that make them different from all others. Just a few of the crucial variables which will necessarily distort any effort at comparison between the entities are fhe following:

1. Currency of lending.

2. National, regional or multi-regional scope of operations.

3. Distortions in financial statements as a result of intermingling of congeneric business activities not necessarily related to development lending activities.

4. Differing target markets for loans, i.e., consumer-lending emphasis versus development-lending emphasis, industrial loan portfolios versus agricultural-development loan portfolios.

The many different possible permutations and combinations of the above variables will tend to make the financial statements of each of these entities necessarily different, and one runs the risk of comparing apples to oranges. For this reason, only very distinct and significant differences between LAAD-CA's operations and the operations of the other entities interviewed were taken into account and emphasized for discussion in this study.

As an example, while most financial intermediaries operating in Central America are local institutions, they are not subject to "cross-currency risk" (or soverign risk) that affects LAAD-CA's operations in the region. Obviously, LAAD-CA's disastrous experience with its Nicaraguan portfolio is a clear example of the additional risk borne by a regional, cross-border lender.

Figure 3 analyzes the breakdown of the gross spread as a percent of total assets between LAAD-CA and 6 other finance companies in the region which were selected for comparison. In addition, some other critical indicators have been computed such as return on equity and leverage. An analysis of the above data yields the following results:

FIGURE 3

	LAAD	FIASA	FIGSA	FISA	BANEX
Gross Spread	10.94	3.25	2.54	4.67	6.09
Net Spread	5.35	2.40	1.67	3.42	1.47
Return on Equity	13.95	19.83	20.60	30.47	17.63
Leverage	1.6	7.3	11.3	7.9	11.0

1. When comparing the yield on total assets obtained by LAAD-CA during 1985 to that of the three Guatemalan financial companies, LAAD-CA out-performed the other finance companies, obtaining a total yield of 13.56%. The finance company which most closely approximates LAAD-CA's yield was FISA with 13.12%. The other Guatemalan finance companies (FIASA and FIGSA) obtained yields on total assets of 11.4% and 9.6% respectively.

2. Out of the three Costa Rican finance companies surveyed, it is appropriate to consider only the figures of BANEX as useful for purposes of this analysis, because it is the only entity which is operating at a comparable level. (PIC's figures are not considered comparable because the company has no debt structure at this time or has it begun to make many loans as of the date of the financial statement). BANEX's yield on total assets was 14.78%. It is expected that this yield would be higher than those of the Guatemalan companies because of the much higher prevailing interest rate structure in Costa Rica (i.e., typical lending rates in Costa Rica are in the 22% p.a. to 25% p.a. range).

3. When one compares LAAD-CA's cost of funds in relation to total assets, striking differences can be noticed between LAAD-CA and the other finance companies. LAAD-CA's average cost of funds spread is a comparatively low 3.9%, whereas all the other finance companies operate with cost-of-funds spreads in excess

of 6%. Because of this, LAAD-CA's gross margin or gross spread for 1985 was as high as 10.94% whereas the average for the three Guatemalan finance companies was only 3.49%; in the case of BANEX, in Costa Rica, the gross spread is a little higher at 6.09%. This gross spread would appear to be in line with the gross spread of the Guatemalan finance companies because Costa Rican interest rates are roughly double those prevalent in Guatemala.

4. Total operating expenses as a percent of total assets compares adversely for LAAD-CA. LAAD-CA requires a spread of 3.7% whereas the Guatemalan finance companies require an average of only 0.96% in order to cover their operating expenses. BANEX required a spread of 3.91%. (Again, for comparison, these figures should be halved because of the higher prevailing interest rates in Costa Rica). In comparing the relationship between total assets and the provision for loan losses, a discrepancy is also noted: LAAD-CA requires a spread of 1.83% and the other finance companies require less than 1%. (This is preimarily due to the higher risk nature of LAAD-CA's portfolio and the fact that tax regulations in Central American countries inhibit the creation of substantial loan loss reserves).

5. Finally, LAAD-CA's net spread, or the relationship between net income and total assets is a relatively high 5.35% for 1985, as compared to an average of 2.50% for the three Guatemalan finance companies and only 1.47% for BANEX in Costa Rica.

With such a net spread one would expect LAAD-CA to be more profitable in comparison to the other companies. However, in fact, it has the lowest return on equity of any of the finance companies in the study. LAAD-CA's 13.95% return on equity is lower than the Guatemalan finance companies that averaged a return on equity of 23.63%. BANEX, in Costa Rica, provided a return on equity of 17.63%.

The explanation for all of the major spread differences lies in the relative composition of the liability side of the balance sheets of LAAD-CA and the other finance companies. In essence, what enables all the other companies to achieve higher levels of profitability than LAAD-CA, in spite of significantly lower gross and net spreads, is leverage (see chart below).

Leverage

Leverage has always been referred to by bankers and lenders as a double-edged sword. Leverage magnifies corporate performance such that when things go well and profits are made, a highly-leveraged company may show a disproportionably higher return on equity than a non-leveraged company. By the same token, when things go badly for a highly- leveraged company and revenues are off, interest cost and other fixed costs cannot be offset and significant losses may result.

Many companies will try to achieve as high a leverage position as possible in order to magnify return on investment. Restrictions on leverage are often the result of external pressure. Banks, who generally try to achieve the highest possible leverage, are restricted by law. In the United States most banks are limited to 15:1 leverage. This insures that banks will have adequate capital to absorb unexpected losses and, therefore, offers protection to the banks' depositors. Some of the larger money center banks such as Citibank, Bank of America and Chase Manhattan Bank are permitted even higher leverage (up to 30:1 in some cases). In Central America banks are generally permitted to leverage their capital to at least 10:1 (Guatemala) and 15:1 in other countries. (Curiously, Guatemala's law permits development finance companies leverage up to 20:1; this is double the leverage permitted to the banks).

Because banks and financial intermediaries, in general, need to operate with such high-leverage ratios, theirs is a business of constantly measuring and avoiding risk. Financial intermediaries avoid risk in many ways: taking collateral, limiting the amount lent to any one borrower (legal lending limit), and by matching maturities and rates through effective asset and liability management.

In 1970, LAAD-CA's original capital was leveraged at 3:1. Today, LAAD-CA's leverage position has dropped to 1.6:1, which is extremely low in comparison with other financial intermediaries. Since LAAD-CA is a privately-held, for profit institution, it must achieve at least a modest and acceptable rate of return on its capital for its stockholders to continue to be interested in maintaining the company. From the data analyzed earlier it was determined that over the past 10 years, on a weighted-average basis, LAAD-CA has earned a return on equity of 12.12%, and return on capital was 13.95% in 1985.

By keeping leverage low (1.6:1), LAAD-CA will most likely never be able to achieve sufficient returns on equity which will allow LAAD-CA to pay AID a full market rate of interest. AID must, therefore, strike a balance in its relationship as a lender to LAAD-CA and find a level of leverage equilibrium for LAAD-CA that will balance the following inherently conflicting desires:

1. Leverage should not increase uncontrolled to levels that would affect the capital adequacy of the company and endanger the principal of LAAD-CA debt to AID.

2. Leverage should increase to a level such that the company can begin to pay a higher rate of interest to AID and still earn an acceptable return on equity.

Because LAAD-CA is basically a finance company and a financial intermediary, it would appear that a leverage rate on the order of at least 2:1, and up to 5:1, would optimize the risk versus return dilemma.

<u>Development of a Formula Approach for AID's Loan to LAAD-CA</u>

Given the above findings it is necessary to determine the appropriate interest rate to be charged to LAAD-CA on the proposed loan, and to formulate required loan conditions which will protect AID's long term loan and yet provide LAAD-CA with incentives to maintain and expand its lending program in Central America.

- The interest rate should respond to the need to minimize the degree of concessionality afforded to LAAD-CA, and maximize the return to AID, as far as possible, to cover the U.S. Treasury's cost of raising 20-year money (i.e., 20 year Treasury Bond is approximately 7.5% as of this writing).

- The interest rate should be one that will, at all times, provide LAAD-CA with an incentive to continue lending, maximize its gross yield on earning assets, keep expenses down and provide LAAD-CA stockholders with a modest and acceptable return on investment.

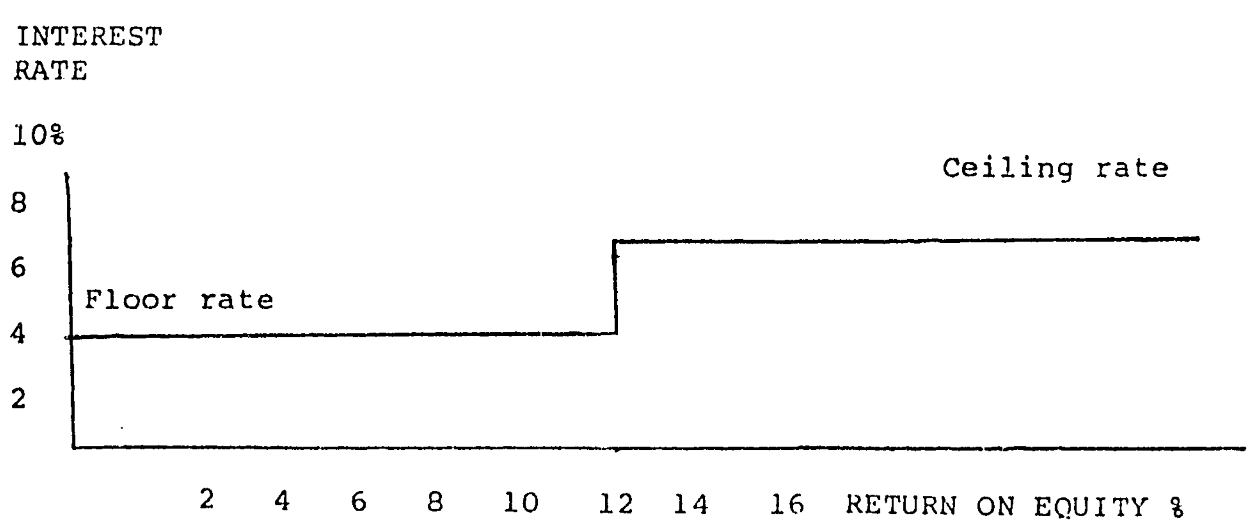
- Because of LAAD-CA's unique role in providing innovative, aggressive, high-risk credit in a difficult lending environment, the interest rate and/or loan terms should provide some type of down-side risk protection in the event of unexpected portfolio losses.

Interest rate levels are constantly changing over time, and it is difficult to assure that any fixed rate of interest will meet all of the above criteria. It is clear that a 4% interest rate has been acceptable to LAAD-CA over the past several years. This rate of interest has been concessionary during the entire period since LAAD-CA's incorporation to the present, and it is most likely that a 4% rate will continue to be somewhat concessionary. For the above reasons, 4% can be selected as a floor interest rate, or a minimum interest rate that LAAD-CA will pay regardless of financial performance.

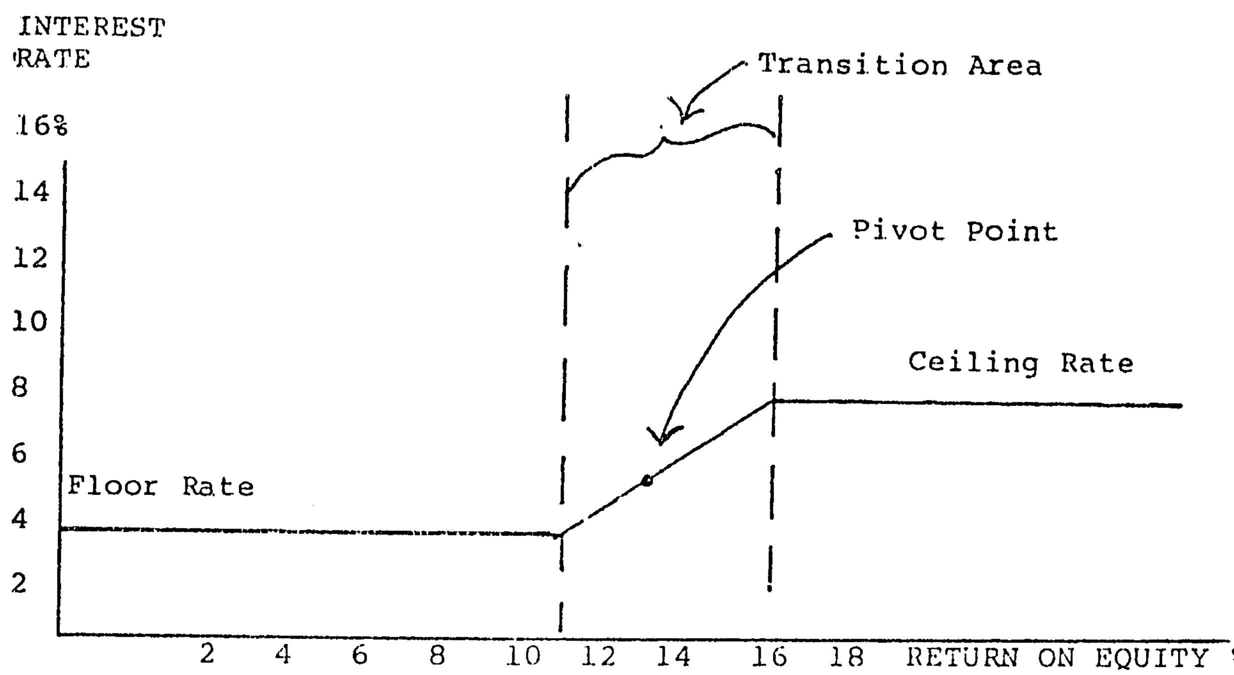
Conversely, it is also an objective to achieve an interest rate that will cover the cost that the U.S. Treasury will incur on the date of the funding of the LAAD-CA loan. This rate will depend upon financial market conditions at the time of committing U.S. Treasury money. However, for the time being, it can be assumed to be 7-1/2% p.a. This rate represents a hypothetical ceiling on the total rate to be paid by LAAD-CA.

Inasmuch as it is also important to motivate LAAD-CA's stockholders to maintain a strong agribusiness lending activity, it is important that an incentive be provided to LAAD-CA such that an acceptable rate of return be earned on the equity of LAAD-CA: in this case, at least 12%.

Thus, a simple formula for lending would be as follows: So long as LAAD-CA's rate of return on equity remains below 12%, AID's interest rate to LAAD-CA would be at the 4% p.a. floor level. As LAAD-CA's profitability increases, LAAD-CA would pay additional interest to AID until AID's cost of funds is met (7-1/2% p.a.). Thereafter, any additional earnings will accrue to LAAD-CA.



The principal drawback with the above lending formula is that as soon as LAAD-CA achieves a rate of return on equity that requires an increase in interest payment to AID above the 4% floor, then all incremental revenue will accrue to AID until the ceiling or market rate interest rate is achieved. LAAD-CA will have little or no incentive to continue to produce profits beyond achieving the target return on target. For this reason, a modification to the above formula is required so that there is a transition area during which LAAD-CA's interest rate increases as LAAD-CA's return on equity also increases. This transition area should pivot around the target rate of return on equity of approximately 12-14%



Using a pivot point of 12-14%, a floor point of 11% and a ceiling point of 16%, a transition area is established where:

- LAAD-CA will pay the floor rate of interest (4% p.a.) until its rate of return on equity exceeds 11%.

- LAAD-CA will pay the ceiling rate of interest (7-1/2%) if its rate of return on equity equals or exceeds 16% p.a.

- LAAD-CA will pay an interest rate between the floor rate and the ceiling rate while LAAD-CA's return on equity is in the transition area and as LAAD-CA works its return on equity up from 11% to 16%. While LAAD-CA's return on equity is in the transition area, roughly 50% of its incremental income will accrue to AID and 50% to LAAD-CA. Likewise, roughly 50% of any incremental expenses will be borne by both parties.

The above method for establishing the interest rate for the new loan is flexible yet strives to meet all of the necessary criteria for charging at or near a market rate of interest. The analysis will attempt to translate the concept into a practical mechanism that can be incorporated into the loan agreement and can be easily monitored by AID and LAAD-CA.

In order to make the concept workable, it is recommended that the loan agreement between AID and LAAD-CA establish the floor rate of interest (4% p.a.). LAAD-CA will pay this interest on a semestral basis in the manner that LAAD-CA would normally pay interest on an AID loan. The loan agreement will then establish that following the annual external audit review of LAAD-CA's financial statements, if LAAD-CA's return on equity exceeds 11% an overage interest payment will be due and payable to AID within 30 days of the completion of the audit. The overage interest rate to be applied shall be calculated using the following formula: (see Appendix A for derivation of the formula):

$$\text{Overage Interest Rate} = i = \frac{(70 \times \text{Net Profit}) - (7.7 \times \text{Total Capital})}{\text{Total Capital} + (.7 \times \text{Average Aid Loan Balance})}$$

Net Profit shall be defined as the net profit as determined by the audited financial statements PRIOR to calculation, accrual or payment of the overage interest, PLUS any interest paid during the year to any affiliated company.

Total Capital shall be defined as the average stockholder's equity of LAAD-CA during the year, as determined by the company's external auditors, to include paid in capital, capital surplus, if any, capital reserves, if any, and retained earnings LESS the average accounts receivable or loans receivable by LAAD-CA from any affiliated company.

Average AID Loan Balance shall be defined as the average outstanding loan balance, during the calendar year, of the new AID loan.

Additional Recommended Loan Covenants

In order for AID to maintain the risk versus return equilibrium discussed earlier, such that LAAD-CA maintain a capital base strong enough to support its lending operations and to provide an adequate cushion to protect the loan principal while, at the same time, encouraging LAAD-CA to leverage its capital more efficiently, the following loan covenants are to be included:

- LAAD-CA will strive to maintain a stockholder's equity position of not less than $6,000,000.

- LAAD-CA will maintain a total debt to equity ratio of at least 2:1 and not greater than 5:1; and will strive to reach the 3:1 ratio if acceptable by LAAD-CA's Board of Directors.

(Total Debt is defined as total liabilities of the company as presented in the external auditor's report).

Stockholder's Equity shall be defined as described earlier).

In order to facilitate the monitoring of the financial data necessary to implement the formula the loan document shall require LAAD-CA to present to AID, together with the annual audited financial statements, a certification by the auditors to the following:

1. A statement certifying the calculation of the overage interest rate and the overage interest due and payable to AID under the loan contract.

2. A statement to the effect that the auditors are satisfied that cost allocations between LAAD-CA and affiliated companies have been effected in a logical and consistent manner and in accordance with generally accepted accounting principles.

3. A statement to the effect that the provision for loan losses taken for the year by the company is adequate, yet not excessive, given the status of LAAD-CA's loan portfolio.

4. A statement that LAAD-CA is in compliance with the loan covenants established in the AID Project Agreement.

Sensitivity Analysis

In order to test the model to determine the effect of the formula on LAAD-CA's operations under differing circumstances, several sets of financial projections were prepared using different assumptions. Initially LAAD-CA prepared their own cash flow and projected their balance sheet and income statement over a five year period ending in 1990. These financial figures were adjusted slightly as the formula was applied to calculate the overage interest.

In the first scenario, LAAD-CA's projections were taken as submitted and adjusted only for the overage interest. Critical LAAD-CA assumptions were as follows:

1. 11.0% p.a. yield on gross loan portfolio plus 0.5 yield from other income: Total yield on gross loan portfolio is 11.5% p.a.

2. Capital structure not modified, i.e., total equity continues to increase through retention of earnings.

3. It is assumed that the new loan will be disbursed as follows:

1986	1987	1988	1989	1990
2,000,000	5,000,000	5,000,000	7,000,000	6,000,000

4. It was assumed that the level of liquid assets necessary to conduct operations could be reduced to $5,060,000 from LAAD-CA's present level of $6,500,000. (In all probability this level can be lowered even further without affecting LAAD-CA's overall liquidity. Since the projections assume that the commercial bank co-financing requirements have been dropped and replaced by counterpart funding derived from LAAD-CA retained earnings, LAAD-CA's liquidity requirement is basically limited to making semi-annual loan payments to AID plus meeting their operating expenses).

Other sets of projections were then run modifying the basis slightly: In some cases return on gross loan portfolio was increased to conform to the company's past performance. In other projections the capital structure of LAAD-CA was modified so as to maintain a minimum of 3:1 leverage. In other cases leverage was allowed to increase as rapidly as possible without exceeding a leverage of 5:1.

Other formulas were developed and projections were also run using different leverage and yield on loan portfolio assumptions:

Formula Number 1 - Floor point of 10% Return on Equity and a ceiling point of 14%. Under this scenario, AID's interest rate rises from 4% to 7.5% as LAAD-CA's return on capital grows from 10% to 14%.

$$i = \frac{(87.5 \text{ x Net Profit}) = (8.75 \text{ X Total Capital})}{\text{Total Capital} + (0.875 \text{ x Average AID Loan Balance}}$$

Formula Number 3 - Floor point established at a Return on Equity of 12% with a ceiling point at 18%. Under this scenario AID's interest rate rises from 4% to 7.5% as LAAD's return on capital grows from 12% to 18%.

$$\text{Average Interest Rate} = i = \frac{(700 \text{ x Net Profit}) - (84 \text{ x Total Capital})}{(12 \text{ x Total Capital}) + (7 \text{ x Average AID Loan Balance})}$$

The results of all of the projections were tabulated as shown under Chart 1 (where LAAD-CA's average loan rate is held constant and forecast at 11%) and Chart 2 (where LAAD-CA's average loan rate is held constant and forecast at 11.75%).

Note: The loan rate of 11% is conservative and is the one used by LAAD-CA in their original projections. The loan rate of 11.75 is more in line with LAAD-CA's actual performance over the proceeding years.)

The results of this sensitivity analysis were considered satisfactory:

- In all of the different projections, LAAD-CA's return on equity exceeded 12% p.a. for each year. (The only exception was a return on equity of 11.5% achieved in 1987 utilizing LAAD-CA's assumption that average return on portfolio drop to 11% and leverage remain low at 2.0).

- In all cases, for every year, profits increased from year to year.

- In all cases, the rate of return on equity tends to INCREASE over time.

(Based on Average Loan Rate of 11.75%)

	Formula		1986	1987	1988	1989	1990
I. Low Leverage							
Capital increasing over time as per original LAAD Projections (Leverage grows slowly over time)	No. 1	Leverage	1.65	1.65	2.05	2.30	2.70
		Total Capital	8630000	9032000	9954000	11164000	[illegible]
		Net Income	176[illegible]52	1152549	1309891	1467160	[illegible]
	10%-14%	Total Loan Rate	7.50	6.42	6.76	6.75	[illegible]
		Return on Equity	20.47	12.76	13.16	13.14	13.13
	No. 2	Leverage	1.65	2.05	2.30	2.61	[illegible]
		Total Capital	8630000	9032000	9954000	11164000	[illegible]
		Net Income	1766452	1191592	1380721	1565633	[illegible]
	11%-16%	Total Loan Rate	7.50	5.54	6.01	6.11	[illegible]
		Return on Equity	20.47	13.19	13.87	14.02	[illegible]
	No. 3	Leverage	1.65	2.05	2.30	2.61	[illegible]
		Total Capital	8630000	9032000	9954000	11164000	[illegible]
		Net Income	1766452	1220518	1436319	1644820	[illegible]
	12%-18%	Total Loan Rate	7.50	4.88	5.42	5.59	[illegible]
		Return on Equity	20.47	13.51	14.43	14.73	[illegible]
II. Moderate Leverage							
Large dividend is paid out to parent company to maintain the minimum capital requirement of $6,000,000 and a moderate leverage on the order of 3:1	No. 1	Leverage	1.65	3.00	3.21	3.58	[illegible]
		Total Capital	8630000	6900000	7800000	8000000	[illegible]
		Net Income	1766452	1024518	1006831	1213926	[illegible]
	10%-14%	Total Loan Rate	7.50	7.50	7.44	7.32	[illegible]
		Return on Equity	20.47	14.85	13.93	13.79	[illegible]
	No. 2	Leverage	1.65	3.00	3.21	3.58	[illegible]
		Total Capital	8630000	6900000	7800000	8000000	[illegible]
		Net Income	1766452	1052904	1165496	1314061	[illegible]
	11%-16%	Total Loan Rate	7.50	6.98	6.76	6.75	[illegible]
		Return on Equity	20.47	15.26	14.94	14.93	[illegible]
	No. 3	Leverage	1.65	3.60	3.44	3.43	2.79
		Total Capital	8630000	6000000	7400000	9100000	[illegible]
		Net Income	1766452	1023470	1178623	1422685	[illegible]
	12%-18%	Total Loan Rate	7.50	6.95	6.29	6.12	5.65
		Return on Equity	20.47	17.06	15.93	15.63	[illegible]
III. Higher Leverage							
Large dividend is paid out to parent company to maintain the minimum capital requirement of $6,000,000 but a maximum leverage 5:1	No. 1	Leverage	1.65	3.60	4.47	4.93	[illegible]
		Total Capital	8630000	6000000	6000000	6800000	[illegible]
		Net Income	1766452	992768	978897	1039717	[illegible]
	10%-14%	Total Loan Rate	7.50	7.50	7.50	7.50	[illegible]
		Return on Equity	20.47	16.51	16.31	15.29	13.76
	No. 2	Leverage	1.65	3.60	4.47	4.93	[illegible]
		Total Capital	8630000	6000000	6000000	6800000	[illegible]
		Net Income	1766452	990768	978897	1071969	[illegible]
	11%-16%	Total Loan Rate	7.50	7.50	7.50	7.33	[illegible]
		Return on Equity	20.47	16.51	16.31	15.76	[illegible]
	No. 3	Leverage	1.65	3.60	4.47	4.93	[illegible]
		Total Capital	8630000	6000000	6000000	6800000	[illegible]
		Net Income	1766452	1023470	1035104	1155150	[illegible]
	12%-18%	Total Loan Rate	7.50	6.95	7.06	6.91	[illegible]
		Return on Equity	20.47	17.86	17.25	16.99	[illegible]

(... on Average Loan Rate of 11.00%)

	Formula		1986	1987	1988	1989	1990
. Low Leverage							
Capital increasing over time as per original LAAD Projections (Leverage grows slowly over time)	No. 1	Leverage	1.65	2.06	2.30	2.61	2.67
		Total Capital	8630000	9032000	9954000	11164000	12064000
		Net Income	1619885	1031582	1193999	1356839	1557424
	10%-14%	Total Loan Rate	7.50	5.24	5.75	5.04	5.64
		Return on Equity	18.77	11.42	12.00	12.10	12.11
	No. 2	Leverage	1.65	2.05	2.30	2.61	2.70
		Total Capital	8630000	9032000	99540000	11164000	12864000
		Net Income	1632073	1074513	1264648	1443915	1681170
	11%-16%	Total Loan Rate	7.50	4.63	5.19	5.35	5.45
		Return on Equity	18.91	11.90	12.70	12.93	13.87
	No. 3	Leverage	1.65	2.06	2.30	2.61	2.67
		Total Capital	8630000	9032000	9954000	11164000	12864000
		Net Income	1619885	1086715	1300706	1503206	1753565
	12%-18%	Total Loan Rate	7.50	4.2	4.62	4.85	4.95
		Return on Equity	18.77	12.03	13.07	13.46	13.63
I. Moderate Leverage							
Large dividend is paid out to parent company to maintain the minimum capital requirement of $6,000,000 and a moderate leverage on the order of 3:1	No. 1	Leverage	1.65	3.00	3.21	3.50	3.95
		Total Capital	8630000	6900000	7800000	8800000	8800000
		Net Income	1632073	907799	10022869	1127534	1137689
	10%-14%	Total Loan Rate	7.50	6.76	6.50	6.46	6.56
		Return on Equity	18.91	13.16	12.06	12.81	12.92
	No. 2	Leverage	1.65	3.00	3.21	3.58	3.95
		Total Capital	8630000	6900000	7800000	8800000	8000000
		Net Income	1632073	952011	1070792	1215057	1235722
	11%-16%	Total Loan Rate	7.50	5.96	5.91	5.97	6.13
		Return on Equity	18.91	13.80	13.73	13.81	14.04
	No. 3	Leverage	1.65	3.60	3.32	3.74	2.79
		Total Capital	8630000	6000000	7600000	8500000	12464000
		Net Income	1632073	923808	1097225	1258688	1700504
	12%-18%	Total Loan Rate	7.50	5.98	5.42	5.64	4.96
		Return on Equity	18.91	15.40	14.44	14.81	13.64
II. Higher Leverage							
Large dividend is paid out to parent company to maintain the minimum capital requirement of $6,000,000 but a maximum leverage 5:1	No. 1	Leverage	1.65	3.60	4.47	4.93	4.18
		Total Capital	8630000	6000000	6000000	6000000	8300000
		Net Income	1632073	836496	821315	909256	1064449
	10%-14%	Total Loan Rate	7.50	7.45	7.23	6.95	6.47
		Return on Equity	18.91	13.94	13.69	13.37	12.82
	No. 2	Leverage	1.65	3.60	4.47	4.93	4.18
		Total Capital	8630000	6000000	6000000	6800000	8300000
		Net Income	1632073	885306	890555	992963	1159335
	11%-16%	Total Loan Rate	7.50	6.63	6.69	6.52	6.68
		Return on Equity	18.91	14.76	14.84	14.60	13.97
	No. 3	Leverage	1.65	3.60	4.47	4.93	5.08
		Total Capital	8630000	6000000	6000000	6800000	6950000
		Net Income	1632073	923808	949546	1066246	1002751
	12%-18%	Total Loan Rate	7.50	5.98	6.23	6.15	[illegible]
		Return on Equity	18.91	15.40	15.83	15.60	[illegible]

- As expected, LAAD-CA's actual profits are <u>lower</u> where LAAD-CA's leverage increases, (because <u>overage interest</u> payments to AID increase at a greater rate). Nevertheless, LAAD-CA's return on equity is <u>higher</u> as the leverage increases.

- In all years LAAD-CA will make payments to AID of <u>overage interest</u> such that AID's return on the loan will fluctuate between 5.5% and 7% p.a.

As the floor point and the ceiling point are increased the loan rate earned by AID decreases slightly and the rate of return on equity increases for LAAD-CA.

Formula Number 3 (12%-18%) appears to be the most attractive from LAAD-CA's point of view while formula Number 1 (10%-14%) is most attractive from AID's point of view. Formula Number 2 is a compromise position and represents ROCAP's recommended approach, which has also been agreed to in principle by LAAD-CA and LAAD-CA officials. If the formula approach cannot be negotiated satisfactorily between AID and LAAD-CA, the results of the Sensitivity Analysis suggest that a fixed interest rate of approximately 5.0-6.0% p.a. would be the next best acceptable alternative for the pricing of the AID loan.

In the past, LAAD-CA may have required a concessional interest rate from AID in order to ensure its survival, however, LAAD-CA is today stronger, more mature and capable of paying a higher rate of interest to AID. Concessionality of terms of lending (i.e., a 20-year loan tenor and the prepared-formula approach to lending, which establishes an interest rate floor) is still necessary to support LAAD-CA's high-risk lending operations. However, the key to LAAD-CA's future growth and elimination of the degree of concessionality lies in LAAD-CA's ability to achieve a leverage position which will balance concerns over LAAD-CA's capital adequacy versus LAAD-CA stockholders' need to obtain a modest and acceptable rate of return on equity.

B. <u>Economic Analysis</u>

Economic viability for a project in financial intermediation rests on the economic internal rate of return (EIRR) to the sub-projects. The U.S. Government will provide dollar resources to LAAD-CA which will on-lend these funds to approved sub-borrowers in the agribusiness sector in Central America and Panama. These financial resources must earn a rate of return at least equal to the opportunity cost of capital in the region. If such a return is achieved, the loan project is economically viable. If not, then financial resources applied to this project would be better utilized in other sectors of economic activity.

An interest rate of some 12% in dollars charged by LAAD to its subborrowers should indicate that this project will earn a real rate of return at least equal to the opportunity cost of capital in Central America. This conclusion can also be reached by adjusting the financial internal rates of return (FIRR) for the shadow prices of labor and foreign exchange and for the costs of financial intermediation.1/ These adjustments allow us to estimate the FIRR which can then be compared to the opportunity cost of capital.

Applying this methodology to the LAAD-CA project does, however, encounter several difficulties. Detailed cash-flow projections for the subprojects that will make up LAAD-CA's anticipated portfolio under this project are not as yet available. We have only estimates of FIRRs for different sectors of activity provided by LAAD-CA and Price Waterhouse for the economic and financial analyses of previous projects:

1/ A distinction must be made between domestic and international financial intermediation. If LAAD-CA were a domestic financial intermediary, only that portion of the interest rate to the subborrowers that represented the actual cost of intermediation, i.e., LAAD-CA's spread between its cost of funds and its lending rate, would be included in the subborrower FIRR calculations. The residual, or LAAD-CA's cost of funds, is actually a rate of return to savers, or a transfer from one sector to another in the macroeconomy, and is therefore netted out. But LAAD-CA is an international financial intermediary channeling savings from one macroeconomy to another. Consequently, all of the interest rate, not just LAAD-CA's spread, should be included in the subborrower FIRR calculations and we assume that the numbers below reflect that.

Sector	FIRR	% in Portfolio
poultry	20-25%	4.3%
dairy	25-30%	9.1%
vegetables	15-40%	24.9%
fishery	10-20%	3.9%
ornamentals	15-40%	9.8%
other (all sectors)	20-35%	48.0%
weighted average	27%	100.0%

The weighted average of these rates (using as weights the participation of each sector in the total portfolio) is approximately 27%, which is the FIRR for the total portfolio.

In order to derive the EIRR from the FIRR, adjustments must be made for the shadow prices of foreign exchange and labor. To the extent that the observed prices of these two factors differ from their scarcity values (the prices that would exist in perfectly competitive markets), the EIRR will differ from the FIRR. Some adjustment is necessary due to exchange rate overvaluation, or for the amount that the actual price of foreign exchange exceeds its scarcity value, in one of the countries of the region. Panama has no independent monetary system; consequently, their is no exchange rate between the Panamanian Balboa and the US dollar and, of course, no overvaluation between the two. Costa Rica, El Salvador and Guatemala have implemented new exchange rate regimes removing much of the overvaluation that existed in their currencies. The respective USAID Missions were consulted on this point, and it appears that these currencies are not significantly overvalued at the present time. The Honduran Lempira, however, does seem to be overvalaued by as much as 40% on a purchasing power parity basis. Since the Honduran projects will make up only about 10-15% of LAAD-CA's new portfolio, only a small adjustment, perhaps 4-6%, will be necessary to compensate for the overvaluation of the Honduran currency.

Some adjustment is probably also required for the shadow wage or, the opportunity cost of labor. It is not known what wage rates were used to estimate the FIRRs in the above table and we do not have reliable estimates for the shadow prices of labor in the countries of the CA/P region. We believe, however, that rural wages, especially in Guatemala, El Salvador and Honduras, approximate the scarcity value for labor. Consequently, whatever adjustment is necessary is likely to be small.

The Mission concludes that the EIRR to this project is slightly higher than the financial rate of return to the projected LAAD-CA portfolio. After adjustments for the shadow prices of labor and foreign exchange, the calculated EIRR would be somewhat higher than the 27% estimated for the FIRR, probably in the range of 30-35%. Since the opportunity cost of capital in the region is estimated to be between 12% and 15%, the Mission considers the project to be economically viable.

C. Institutional Analysis

Beginning with the near to mid-term corporate strategy of LAAD-CA, and looking at the institution both with and without the proposed ROCAP loan project support, it is helpful to consider an example of the LAAD Americas subsidiary. This LAAD subsidiary has considerable investment experience in Chile and Peru, primarily in the exportation of fresh fruit, vegetables and fish products. Initially, as a result of LAAD Consolidated's own loan financing having to be rolled over or restructured due to temporary cash flow and managerial constraints, LAAD Americas gradually began to build equity positions in several of its potentially sound loan projects. LAAD Americas now has substantial equity investments in these countries and has increased the company's earnings to a positive level.

Over the next five years, LAAD-CA expects to carry out a similar strategy in the CA/P region either with or without ROCAP loan funds. That is, LAAD-CA is prepared to invest approximately $3 million in joint equity or other forms of equity build-up, as a means of exerting more of their managerial influence and enhancing their profit-making potential in the future. Under this scenario, LAAC-Ca would evolve into a purely operating entity at performing the role of a venture capital company within the next 10-15 years. With the proposed ROCAP loan support, however, LAAD-CA will be in much better position to not only finance a broader range of loan projects, having greater impact in achieving the developmental objectives of the project, but also to be better able to choose among potential emerging growth projects which would lend themselves to LAAD-CA equity investments.

LAAD-CA Personnel requirements/functional responsibilities.

The Latin American Agribusiness Development Corporation (LAAD) is a private investment and development company. Its shareholders are fifteen leading agribusiness and financial corporations. LAAD-CA finances and develops agribusiness projects in Latin America involving all phases of production, processing, storage services, technology and marketing in the fields of agriculture, livestock, forestry and fishing. 1/

1/ LAAD-CA Annual Report - 1985

The following is a list of the stockholders of the corporation:

Adela Investment Company, S. A.
Luxemburgo

Bankamerica International Financial Corp.
San Francisco, CA

Borden, Inc.
New York, NY

Cargill, Inc.
Minneapolis, MN

Castle & Cooke, Inc.
San Francisco, CA

Caterpillar Tractor Company
Peoria, IL

Rabobank Curacao, N.V.
Willemsted, Curacao Netherlands Antilles

Chase Manhattan Overseas Banking Corporation
Newark, DEL

CPC International, Inc.
Englewood Cliffs, NJ

Deere & Company
Moline, IL

Mellon International Holdings Corporation
Wilmington, DEL

Monsanto Company
St. Louis, MO

Ralston Purina Company
St. Louis, MO

Southeast Bank, N. A.
Miami, FL

The Goodyear Tire & Rubber Company
Akron, OHIO

LAAD-CA is a Panamanian corporation and, as a foreign company which does not engage in trade or business in the U.S., is not liable for U.S. taxes on corporate income. Because its stockholders each have a minority interest in LAAD, they pay income taxes on LAAD-CA's earnings only as dividends are paid to the stockholders.

LAAD-CA has four operating subsidiaries, all of which are Panamanian corporations. LAAD Americas, S.A., headquartered in Santiago, Chile, overseas lending and investment operations in South America; LAAD Caribe, S.A., headquartered in the Dominican Republic, overseas lending and investment operations in the Caribbean Islands while LAAD de Centroamerica, S. A., headquartered in Guatemala, supervises credit and investment operations in Central America and Panama. A fourth subsidiary, LAAD Marketing Company, Inc., has been recently formed to perform brokerage activities in the distribution of agricultural and agribusiness products from Latin America to U.S. and European markets. Out of the whole group this is the only company subject to U.S. taxes inasmuch as it is enagaged in trade business in the U.S.

In spite of the relatively complex corporate legal structure, LAAD-CA is a very lean, highly centralized organization. The various subsidiaries operate under the direct leadership of the parent company and receive practically all their administrative support from the Miami offices of LAAD. All accounting records, including loan records, etc. are computerized at the Miami headquarters. This computerized data base can be accessed by the field offices via telephone lines. For convenience, however, the field offices do maintain shadow loan records of their own.

By and large, the field staffs of the operating subsidiaries are limited to a handful of people whose role is to develop and maintain client contact, i.e., loan marketing, credit initiation and remedial management.

Mr. Robert Ross is President and Chief Executive of LAAD. His staff consists of:

- Mr. Ben Fernandez, Vice President and Secretary who supervises all credit operations for the Group.

- Mr. Elsayad Shoreibah, Vice President and Treasurer, who supervises all administrative and financial matters for the Group. As Treasurer, he is the key officer involved in managing the liability side of LAAD's balance sheet, including all AID loans. He is also responsible for the personnel functions.

- Mr. Oscar Alvarez, Comptroller (reports to Mr. Shoreibah).

- Other support staff at the Miami office total three secretarial/clerical personnel.

LAAD's headquarters is basically a cost center and generates no revenues. All of its expenses are allocated to the operating subsidiaries on a pro-rata basis in accordance with the level of net profit of the subsidiaries.

LAAD-CA field staff in Guatemala is made up of three officers and one secretary:

- Tom Mooney, President, oversees the activities of LAAD-CA and supervises the Guatemala office. Considerable hands-on work is performed in all areas involving client contact and coordination with the Miami office.

- Hector Wilkinson, Vice President, lives in Costa Rica and operates out of an office in his home. (He utilizes secretarial services, on a sporadic basis, at the offices of LAAD's attorneys in San Jose.) Mr. Wilkinson is primarily involved in credit initiation and travels throughout the Central American area.

- Mr. Francisco Lacayo, operates out of the Guatemala office, travels throughout Central America and is primarily engaged in remedial management. Client contact is usually the result of tardy loan payments or a request by the client for a restructuring of the loan repayment schedule or loan agreement.

It is anticipated that the increased workload, resulting from the AID loan, may require the hiring of two more field officers during the second and third years of the AID loan. These officers are expected to cost the Company approximately $60,000 each, including all social security payments, perquisites, and moving expenses. (These expenses have been factored into the profit and loss projections prepared by LAAD-CA in their annual budget.)

LAAD Marketing Co. Inc. operates out of LAAD's offices in Miami. The company is headed by Mr. Rolando Rivas, Vice President, a Nicaraguan with several years experience in marketing agricultural products for a Guatemalan group. The company has a total staff of three which includes a secretary/clerk and an accounting clerk.

The company began operations in response to LAAD's need to market the production of farms in Chile which it had taken over as a result of foreclosure. Because of legal restrictions (Federal Reserve Bank, Comptroller of the Currency) which prevent LAAD's subsidiaries from engaging in direct marketing activities in the U.S., LAAD Marketing has had to establish several operating subsidiaries in the U. S. through which it sells its products.

In general, LAAD Marketing owns only 25% of these subsidiaries and the Latin American exporting client owns 75%. Through this mechanism LAAD Marketing accomplishes the following:

- It controls the cash flow of its exporter client in Latin America.

- The brokerage operation covers all selling expenses in the U.S. and abroad.

- LAAD Marketing obtains 25% of marketing profits (after selling expenses).

- The exporting client receives 75% of the marketing profits and thereby benefits from the selling operations.

- The exporter is a risk partner (he must invest hard cash equity into the marketing subsidiaries along with LAAD's contribution).

At this time LAAD Marketing operates the following companies:

Mountain Fresh, Inc. - Sells asparragus and raspberries from Chile (Partnership between Chilean producers and Oregon producers of raspberries).

Southern Sun, Inc. - Sells lemons, grapefruit, oranges and other citrus products.

Transamerican Seafoods, Inc. - Sells seafood products, primarily from Chile.

Fresh Fish, Inc. - Also seels seafood products (fresh) from Chile.

Finally, LAAD Marketing operates a U. S. subsidiary at the Farmer's Market in Pompano, Florida called Fresh Cargo, Inc. This company physically receives and moves the produce coming in from overseas and re-packs it, if necessary, for delivery to the final buyer. This company has a fixed staff of four workers (foreman, driver, traffic manager and a worker). Other workers are hired on a part-time basis as needed. The services of this company are paid for by the importing subsidiary that utilizes the services in Pompano.

In general, the activities of LAAD Marketing Company are unrelated to the lending activities of LAAD's other subsidiaries. The activities of LAAD Marketing will, therefore, be largely unaffected by the AID loan. It is possible, however, that some of LAAD's new clients generated from the loans in Central America, made possible by the AID loan, will someday become users of the brokerage services provided by LAAD Marketing Company, Inc.

D. Social Soundness Analysis

1. Introduction

The worldwide recession which began in the late 1970s placed the CA/P region's economies in severe jeopardy. Decreases in the real prices for key agricultural commodities, sharp increases in the cost of energy, increases in the cost of non-petroleum imports, foreign indebtedness, and record high interest rates combined to drive the CA/P countries into deep recession.

The countries of the region were left with burdensome debt service obligations, negative real growth, and much of their industrial capacity unused. The nature of this recession was unique in that it soon became clear that the solution would not be found in a cyclical rebound in commodity prices or in a normalization of the regional market for industrial goods. Quota restrictions and other major long-term changes in the various commodity markets, combined with limited growth potential for industrial sales within the CACM and foreign debt, had altered conditions within the CACM and had made traditional CACM economic policies unworkable.

The social impact of these combined events has been devastating. Unemployment and underemployment reached all time highs (ranging from 25-40%) and evidence of related ills soon began to appear in other social indices.

2. Relationship to the Project

As a part of the project development exercise for the last LAAD-CA project (596-0097), LAAD-CA conducted a self-evaluation of the economic impact of its activities with the help of its sub-borrowers. Each sub-borrower was asked to estimate the impact of the LAAD-CA loan on the number of small farmers benefitted, the increase in take-home pay realized by small farmers, the number of new jobs created, the contribution of the project to value added and the amount of additional exports generated. Consultations were then conducted between LAAD-CA staff and each major sub-borrower to discuss and verify the estimates. The overall assessment of the economic impact of both LAAD consolidated activities and LAAD-CA were found to be extremely positive as they affected small farmer sub-borrowers. In all, it was concluded that 20 to 25 thousand small farmers benefitted, regional value added was raised by $68.0 million, 8,000 new jobs were created, $74.0 million in additional exports generated and average farmer take-home pay increased by $1,400. The benefits would be substantially larger (about 2.6 times) if the impact of the whole project had been measured instead of prorating for LAAD's financial contribution. The LAAD-CA project has had a major impact on small farmers primarily because agricultural processors purchase the materials locally and because LAAD-CA has established as a major condition for sub-lending to processing firms the adoption of a mode of operation designed to benefit a large number of small farmers.

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

Improvements on small farm agriculture will help alleviate the unemployment and low income problems in the CA/P countries and will generate badly needed foreign exchange. Critical to this expansion will be the availability in the CA/P region of sufficient credits and other resources to provide for the general expansion of the agribusiness sector.

The expansion of production will serve to increase overall employment in the region. Many of the agribusiness products require either labor intensive or extensive sorting and packing of produce. These jobs are often performed by women in Central America and, thus, this project will contribute to greater employment potential for women.

3. Overall Distribution of Benefits

It can be seen that the benefits to the direct participants in the project will soon be diffused throughout the region to hundreds of individual small farmers, firms, and businesses.

The social benefits of the project will be derived from the secular economic growth which the project will, in a small way, help to foster. It relies on the logic of creating a "bigger pie" to divide between the residents of the CA/P region. A healthier agribusiness sector will contribute to the creation of jobs and competition for labor which will lead to a better overall standard of living and improved social conditions.

IV. COST ESTIMATES AND FINANCIAL PLAN

The LAAD-CA Agribusiness Export Promotion Project will be implemented over a period of three years with the first disbursement taking place in Fiscal Year 1987. The life-of-project funding of $18 million will be applied entirely to non-traditional agribusiness export loans channeled through LAAD-CA. of this total, $15 million will be AID loan financing, and $3 million will be LAAD-CA counterpart contributrion.

A. Method of Implementation and Financing

The entire $15 million in AID loan project funding will be implemented through an Intermediate Credit Institution (LAAD-CA), and will be financed through the direct reimbursement method of payment. As this applies to the full $15 million in AID funding, the normal chart format of presenting the various methods of implementation and financing has not been included in this document. Advances will be provided by AID to cover the immediate disbursements for project lending activity.

The financial analysis section of this document placed considerable emphasis on the assessment of LAAD-CA's financial position and related management peformance. LAAD-CA was found to be in a strong financial position which would not be adversely affected by the additional loan activity atributable to this project.

Sub-loan eligibility criteria and the approval process for sub-loan applications will be agreed upon prior to the first AID advance.

B. Replicability

The Financial Analysis (Section III. A.) of this document adequately demonstrates LAAD-CA's ability to generate the necessary resources required to sustain project activity when AID financing is no longer available.

C. Disbursement Schedule

The entire $18 million in project funds will be disbursed in U.S. dollars over a three year period, $5 million AID and $1 million counterpart during each year, as summarized below. The AID portion of project funding will be obligated within two years, $6.6 million scheduled for late fiscal year 1986, and the remaining $8.4 million in fiscal year 1987. The proposed country-by-country allocation of the entire loan is also provided below.

Table No. 2

Projection of Expenditures by Fiscal Year
and Recipient Country
(U.S.$ Millions)

Country	FY 87	FY 88	FY 89	Total	Percent
Belize	0	0.5	0.5	1.0	5%
Guatemala	0.5	1.0	1.0	2.5	14%
El Salvador	2.0	1.0	1.0	4.0	22%
Honduras	0.5	1.0	1.0	2.5	14%
Costa Rica	2.5	1.5	1.5	5.5	31%
Panama	0.5	1.0	1.0	2.5	14%
TOTAL	$ 6.0	$ 6.0	$ 6.0	$ 18.0	100%

D. Audit Coverage

LAAD-CA contracts with the independent accounting firm of Price-Waterhouse for a general financial audit on an annual basis. The specific AID audit requirements, and the additional certification statements regarding cost allocation between LAAD-CA, the LAAD-CA parent company, and other subsidiaries, as well as the certification regarding provision for loan losses (as outlined in Section VII, Conditions Precedent), will be incorporated into this annual independent audit.

As part of this project agreement, LAAD-CA will covenant to finance the cost of this audit on an annual basis.

V. IMPLEMENTATION, MONITORING AND EVALUATION PLANS

A. LAAD's ability to implement and monitor an expanded program

Although LAAD-CA has been capable of making loans of approximately $5 million per year (or on the average 12-13 new loans per year), it is anticipated that LAAD-CA will have a larger responsibility in developing new loan clientele and therefore will require a somewhat larger staff to effectively implement and monitor the program.

Since approximately 10-15% of the total project funds will involve a form of equity investment, these subprojects will require more analyses and a longer time period to complete the loan transaction, in addition to more hands-on management, financial and marketing assistance.

To carry out this new program effectively, LAAD-CA will hire one new account executive for the CA/P region and most likely one additional accounting and loan monitoring person. These costs have been included in LAAD's projected income statements.

It will be especially important to monitor the status of the project purpose and program goal during the three year life-of-project. Project outputs will be tracked through standard LAAD-CA records and financial reports.

To monitor progress toward achievement of the project purpose and contribution to the program goal, baseline data will be gathered at the beginning of the project and surveys will be conducted annually to determine changes from the baseline point. Baseline data to be collected for each sub-borrower are as follows: (a) present volume of non-traditional agricultural export sales, (b) number of employees related to export sales and their income, and (c) net income from export sales. Income baseline data will also be gathered for small and medium producers/suppliers of LAAD-CA sub-borrowers and, to the extent possible, for firms involved in the indirect processing, transport, post-harvest handling, storage and marketing of products of sub-borrowers.

Follow-up surveys will be conducted annually or a sufficient time after sub-loan approval in order to have an effect in determining economic impact (i.e. export sales have been generated). Specifically, the survey will determine the export sales/foreign exchange generated from the sub-loan, the net income to the recipient, the number of employees hired as a result of the sub-loan, and the income effects on existing employees. Similarly, the income impact on small and medium suppliers, processors, transporters, packers, and storage and marketing firms will be assessed. Given the existence of data collected by the surveys, the end-of-project evaluation should be fairly simple and brief. Funds for the surveys and final evaluation will come from PD & S allocations.

B. ROCAP will be responsible for montoring all project activities and will participate in the review and approval of sub-loan plans. An annual review of all project sub-loans will be carried out in lieu of an interim project evaluation. A final project evaluation will be held after the PACD.

C. Baseline data to be collected for each subborrower are as follows:

a) present volume of non-traditional export sales,
b) number of employees related to export sales and their income,
c) net income from export sales, and
d) socio economic income related to small producer beneficiaries.

Project Implementation Schedule

Project Authorization	August 8, Project
Agreement signed	August 29, 1986
CPs met	September 30, 1986
1st Disbursement	October 15, 1986
1st Annual Review	September 30, 1987
2nd Annual Review	September 30, 1988
PACD	August 31, 1989

VI. CONDITIONS PRECEDENT, COVENANTS AND NEGOTIATING STATUS

A. Conditions Precedent

The following conditions and convenants are recommended for inclusion in the loan agreement. The conditions and convenants have been reviewed with LAAD and LAAD-CA officials and both are in agreement.

1. A technical and financial review of each investment and subloan proposed to be made by LAAD-CA under the loan to assure that such proposed activities are in conformance with project eligibility criteria;

2. A plan for the evaluation of proposed subproject activities by LAAD or any Central American subsidiary of LAAD under the Project to assure that such proposed activities will produce economic benefits in areas where the proposed activities will be located, and contribute to the development of agribusiness systems or enterprises;

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

4. A statement from an independent audit firm certifying the calculation for applying the agreed upon formula for the interest charged to LAAD;

5. A statement by the independent audit firm which certifies that cost allocations between LAAD-CA and the LAAD parent company and other LAAD subsidiaries have been effected in a logical and consistent manner and in accordance with generally accepted accounting principles; and

6. A statement by the independent audit firm which certifies that the provision for loan losses taken for the year by the company is adequate yet not excessive, given the status of LAAD-CA's loan portfolio.

B. Covenants

1. LAAD-CA will convenant to maintain a stockholders equity position of not less than $6 million over the life-of-project.

2. LAAD-CA will convenant to maintain a total debt to equity ratio of at least 2:1, and not more than 5:1, over the life-of-project. LAAD-CA will also covenant to make best efforts over the life-of-project to reach a 3:1 debt equity ratio.

3. LAAD-CA will convenant to keep current over the life-of-project a monitoring and tracking system for measuring the project's outputs and achievement of project objectives.

4. LAAD-CA will covenant to finance the cost of an annual independent audit which meets AID requirements and provides for additional certification statements as required.

5. LAAD-CA will covenant to perform its own environmental impact determination for each investment and subloan proposed under the Loan. For those projects determined to have a positive environmental impact, the designated AID environmental official will assist in determining the necessity of environmental assessment and/or corrective measures.

6. LAAD-CA will convenant that no AID funds be used for the procurement of pesticides.

C. Negotiating Status

As in previous AID loans to LAAD-CA, all special convenants including the utilization of AID loan funds, reserve for bad debts, payment of dividends and source origin requirements have been discussed with LAAD and no difficulties are expected during the final project negotiation leading to the signing of the Loan Agreement.

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ACTION: PDO
INFO: PROGRAM DIRECTOR

AIDAC GUATEMALA FOR ROCAP

E.O. 12356: N/A
TAGS:
SUBJECT: ROCAP EXPORT AGRIBUSINESS DEVELOPMENT AND PROMOTION PROJECT IDENTIFICATION DOCUMENT ID) NO. 596-0123

1. THE SUBJECT PID WAS REVIEWED ON JANUARY 31, 1986, AND HAS BEEN APPROVED. THE FOLLOWING GUIDANCE IS PROVIDED FOR DEVELOPMENT OF THE PROJECT PAPER.

2. POLICY CONSIDERATIONS

(A) INTEREST RATE. AS THE MISSION IS AWARE, GUIDELINES ON TERMS OF AID, DATED OCTOBER 1985, STATE THAT TWO REQUIREMENTS MUST BE CONSIDERED IN DETERMINING THE APPROPRIATE INTEREST RATE TO BE CHARGED A PRIVATE ENTERPRISE WHICH IS THE ULTIMATE BORROWER OF AID LOAN RESOURCES. THESE ARE: (A) THE NEW STATUTORY REQUIREMENT THAT, TO THE EXTENT PRACTICABLE, AID LOANS TO PRIVATE SECTOR INSTITUTIONS SHOULD BE MADE AT RATES AT OR NEAR THE COST OF BORROWING MONEY FROM THE U.S. TREASURY; AND (B) THE POLICY OBJECTIVE THAT INTEREST RATES FOR PRIVATE BORROWERS SHOULD BE AT LDC MARKET DETERMINED TERMS.

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(B) THE DETERMINATION OF THE INTEREST CHARGED BY AID ON ANY LOAN TO AN INTERMEDIATE FINANCING INSTITUTION FOR ON-LENDING TO PRIVATE ENTREPRENEURS, IRRESPECTIVE OF WHETHER ITS OWNERSHIP IS PUBLIC, PRIVATE, OR MIXED, MUST BE BASED ON THE APPROPRIATE RATE TO THE ULTIMATE BORROWERS AS DESCRIBED ABOVE. ADJUSTMENTS MAY BE MADE IN THIS LENDING RATE TO THE DEGREE NECESSARY TO COVER THE COSTS OF INTERMEDIATION OR OF MANAGEMENT OF THE NEW ON LENDING PROGRAM TO THE PRIVATE END BORROWER, INCLUDING, IF APPROPRIATE, A REASONABLE SHARE OF THE RISKS OF ON LENDING. NORMALLY THE IFI SHOULD ALSO SHARE A PORTION OF THE RISK, THOUGH THIS MIGHT BE WAIVED IN INITIAL LOANS FOR START-UP OPERATIONS TO HIGH RISK BORROWERS, AND TO ALLOW PRIVATE INSTITUTIONS A REASONABLE PROFIT MARGIN. ALSO, ABOVE NORMAL MANAGEMENT EXPENSES DUE TO THE DEVELOPMENTAL OR INNOVATIVE ASPECTS OF AN ACTIVITY MIGHT JUSTIFY A DEGREE OF CONCESSIONALITY.

(C) ACCORDING TO THE PID AND THE BOOZ-ALLEN REPORT, LAAD PROVIDES UNIQUE SERVICES SUCH AS LOWER COLLATERAL

REQUIREMENTS AND SIGNIFICANTLY SHORTER PROCESSING TIME, YET IS UNABLE TO CHARGE FOR THEM BECAUSE POTENTIAL BORROWERS WILL QUEUE-UP AT COMMERCIAL BANKS. IN LIGHT OF THIS, THE MISSION SHOULD DETERMINE WHAT THE LONG RANGE AVERAGE EARNINGS ON PORTFOLIO ARE LIKELY TO BE; AND AS PART OF THIS EXERCISE, DETERMINE WHAT LAAD'S ROLE IS IN THE CREDIT MARKET, IF ANY, IN CENTRAL AMERICA AT THIS TIME.

(D) THE PROJECT PAPER SHOULD PROVIDE COMPARATIVE COST EVIDENCE WHICH WOULD ALLOW ONE TO MAKE A JUDGMENT ABOUT LAAD'S PERFORMANCE AND THE MERITS OF RECEIVING CONCESSIONAL MONEY AT FOUR PERCENT OR AT ANY CONCESSIONAL RATE. TO OBTAIN SUFFICIENT INFORMATION THAT REVIEWERS CAN USE TO ARRIVE AT REASONABLE CONCLUSIONS ABOUT THE APPROPRIATE SPREAD BETWEEN THE BORROWING AND LENDING RATES FOR LAAD, THE MISSION MAY WISH TO REQUEST ADDITIONAL TDY ASSISTANCE. THE CONSULTANTS SHOULD BE ASKED TO ASSIST IN AN ANALYSIS WHICH WOULD:

(1) DISAGGREGATE THE LOAN PORTFOLIO AS PART OF THE EXERCISE IN DETERMINING THE TERMS ON WHICH LAAD CAN AFFORD TO REPAY THE AID LOAN;

(2) DETERMINE IF THE LONG RANGE AVERAGE EARNINGS ON PORTFOLIO IS LIKELY TO BE IN THE 12-13 PERCENT RANGE AS ASSERTED BY THE BOOZ-ALLEN REPORT; AND AS PART OF THIS

EXERCISE, DETERMINE WHAT LAAD'S ROLE IS, IF ANY, IN CENTRAL AMERICA;

(3) WITH INFORMATION ON OPERATING COSTS AND LIKELY AVERAGE PORTFOLIO EARNINGS, ESTIMATE THE PRICE LAAD SHOULD PAY FOR AID MONEY;

(4) ASSUMING A ROLE FOR LAAD AND FURTHER, THAT A CONCESSIONAL LENDING IS FOUND TO BE NECESSARY, THE MISSION SHOULD PROVIDE A DETAILED EXPLANATION AND JUSTIFICATION. AN APPROPRIATE DESCRIPTION AND JUSTIFICATION WOULD INCLUDE, AMONG OTHER THINGS, A DISCUSSION OF THE ADMINISTRATIVE COSTS OF LAAD RELATED TO OTHER BANKING INSTITUTIONS AND SHORT-RUN INSURMOUNTABLE INTEREST RATE CEILING PRACTICES: THE RELATIVE COST COMPARISON SHOULD IDENTIFY THE ITEMS AND AMOUNTS OF ADMINISTRATIVE COSTS WHICH RESULT FROM THE DEVELOPMENTAL NATURE OF LAAD AND SET IT APART FROM OTHER FINANCIAL INSTITUTIONS IN THE REGION WHICH DO PAY MARKET RATES FOR THEIR DOLLARS. FROM AN AID POLICY PERSPECTIVE, IF A CERTAIN SET OF COSTS CAN BE IDENTIFIED AS DEVELOPMENTAL IN NATURE, AND THUS EXTRAORDINARY VIS A VIS OTHER BANKING INSTITUTIONS, AN APPROPRIATE OPTION WOULD BE TO MAKE A DIRECT GRANT FOR THESE, AND THEN CHARGE LAAD THE
BT

APPROPRIATE MARKET RATE OF INTEREST FOR THOSE FUNDS TO BE ON-LENT TO ENTERPRISES AND USED IN THE ORDINARY OPERATIONS OF A BANKING INSTITUTION. (THIS WOULD BE DONE IN LIEU OF PROVIDING A SUBSIDIZED RATE FOR THE TOTAL AMOUNT OF FUNDS IN ORDER TO COVER THE QUOTE GRANT ELEMENT UNQUOTE, AS WE HAVE IN THE PAST).

(E) PD-71. UNDER PD-71, SUGAR, PALM OIL, AND CITRUS FOR EXPORT ARE CONSIDERED SENSITIVE ITEMS FOR AID ASSISTANCE BECAUSE OF THE POTENTIAL INJURY TO U.S. PRODUCERS. MISSION REPRESENTATIVES AND DAEC MEMBERS AGREED THAT LAAD WILL NOT BE PERMITTED TO USE AID FUNDS TO FINANCE ANY ASPECT OF THE PRODUCTION, PROCESSING, OR MARKETING OF THESE PRODUCTS FOR EXPORT. THE PROJECT PAPER SHOULD REFLECT THIS UNDERSTANDING.

3. RATIONALE

(A) THE DEMAND FOR THE TYPE OF CREDIT LAAD PROVIDES SHOULD BE CAREFULLY ANALYZED. THE AVAILABILITY OF ALTERNATIVE SOURCES OF FINANCING FOR POTENTIAL LAAD CLIENTS SHOULD BE EXPLORED, INCLUDING OTHER AID PROJECTS BILATERALLY OR REGIONALLY FINANCED. IN THE DEMAND ANALYSIS, THE MISSION SHOULD EXAMINE THE FUNDING NEEDS OF A SHORTER LIFE-OF-PROJECT PERIOD THAN PROPOSED IN THE PID. CONSIDERATION SHOULD BE GIVEN TO A THREE-YEAR PROJECT WHICH WOULD CALL FOR INCREMENTAL FUNDING OVER FISCAL YEARS RATHER THAN EXTENDING THE PROJECT MORTGAGE TO THREE OR MORE FISCAL YEARS. IN ACCORDANCE WITH AMOUNTS BUDGETED FOR OBLIGATION IN FY 1986 AND FY 1987, THIS WOULD BE A LOAN IN THE DOLS 12-15 MILLION. THIS OPTION SHOULD BE ANALYZED SPECIFICALLY IN THE PP.

(B) QUESTIONS HAVE BEEN RAISED AS TO THE DEMAND FOR DOLLARS UNDER ANY CONDITIONS DURING THIS UNSETTLED PERIOD IN CENTRAL AMERICA WHICH HAS LED TO CURRENCY INCONVERTIBILITY AND HIGH ANTICIPATED EXCHANGE RISKS. IN FACT, USING GUATEMALA AS AN EXAMPLE, LAAD CORRESPONDENCE OBSERVES THAT BANKERS BELIEVE THAT A POTENTIAL BORROWER WOULD BE BETTER ADVISED TO BORROW SHORT TERM IN LOCAL CURRENCY AND BUY DOLLARS ON THE FREE MARKET. IN VIEW OF THIS POSSIBLE MARKET RESPONSE, THE MISSION SHOULD CAREFULLY ANALYZE, QUANTIFY, AND DESCRIBE WHY IT BELIEVES THERE WILL BE ENOUGH DEMAND FOR DOLLARS TO JUSTIFY WHATEVER THE FINAL PROJECT LOAN AMOUNT MAY BE.

(C) LAAD SHOULD BE PERMITTED TO USE NEW AID FUNDS FOR WORKING CAPITAL WHEN THE CASE IS WELL JUSTIFIED. IN JUSTIFYING THE FINANCING OF WORKING CAPITAL UNDER THE PROJECT, THE MISSION SHOULD TAKE CARE TO RECONCILE THIS APPROACH WITH THE FINDINGS OF THE CHECCHI REPORT ON EXPORT CREDIT DEMAND (BLADEX) AND THE MISSION'S DECISION TO DE-OBLIGATE FUNDS FOR SHORT TERM DOLLAR CREDIT UNDER THE EXPORT PROMOTION PROJECT. IT IS POSSIBLE THAT PROJECT LENDING FOR SHORT TERM WORKING CAPITAL COULD BE JUSTIFIED WHEN THE SUB-BORROWER CANNOT OBTAIN TIMELY ALTERNATIVE FINANCING AND THE LACK OF SUCH CREDIT WOULD

JEOPARDIZE A SUB-PROJECT FOR WHICH TERM OR EQUITY FINANCING HAS BEEN MADE AVAILABLE THROUGH THE PROJECT. TO THE EXTENT POSSIBLE, NON-AID SOURCES OF LAAD FUNDS OR CREDIT RE-FLOWS SHOULD BE TAPPED FOR THIS PURPOSE.

OBJECTIVES

(A) THE PROPOSED PROJECT'S OBJECTIVES SHOULD BE RE-EVALUATED BASED ON LESSONS LEARNED IN EVALUATIONS OF PREVIOUS A.I.D. SUPPORTED EFFORTS WITH LAAD. SPECIFICALLY, THE OBJECTIVE OF JOB CREATION SHOULD BE REALISTICALLY CONSIDERED IN LIGHT OF EVALUATION FINDINGS. REPEAT LOANS SHOULD BE PERMITTED ONLY TO THE EXTENT THAT THEY PROVIDE FOR PLANT OR PRODUCTION EXPANSION OR FOR A NEW ENTERPRISE LEADING TO A NET ADDITIONAL PROJECT IMPACT. ANY EXCEPTIONS SHOULD BE JUSTIFIED.

(B) SUB-PROJECT SELECTION CRITERIA SHOULD BE MADE EXPLICIT AND LINKED TO PROJECT OBJECTIVES. THE WEIGHT AND PRIORITY OF OBJECTIVES SHOULD BE EVIDENT IN SELECTION CRITERIA. FINALLY, THE DISCUSSION OF PROJECT OBJECTIVES, SUB-PROJECT SELECTION CRITERIA, AND THE TARGET BENEFICIARY GROUP SHOULD CLEARLY SUPPORT ANY PROPOSED CONCESSIONAL INTEREST RATE FOR THE AID LOAN TO LAAD.

5. INSTITUTIONAL ANALYSIS

THE PROJECT PAPER SHOULD INCLUDE AN ANALYSIS OF THE STRUCTURE OF THE LAAD ORGANIZATION WHICH WOULD LAY OUT FUNCTIONAL RESPONSIBILITIES. THE ROLE OF LAAD-MARKETING SHOULD BE INCLUDED IN THE ANALYSIS. THE ANALYSIS SHOULD ALSO INCLUDE A DISCUSSION OF AN EXPANDED PROGRAM'S EXPECTED IMPACT ON LAAD-CA'S ABILITY TO EFFECTIVELY IMPLEMENT AND MONITOR ITS PROGRAM.

6. ENVIRONMENTAL EXAMINATION

LAC/DR/EST AGREED THAT THE MISSION'S IEE RECOMMENDATION
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FOR A NEGATIVE DETERMINATION IS APPROVED BASED ON THE MISSION'S CONFIRMATION OF LAAD'S ABILITY TO CARRY OUT AN INITIAL ENVIRONMENTAL EXAMINATION FOR EACH SUB-LOAN. IT IS UNDERSTOOD THAT IN ANY CASE WHERE THE MISSION RESERVES SUB-LOAN APPROVAL AUTHORITY, THE MISSION WILL REVIEW LAAD'S ENVIRONMENTAL EXAMINATIONS BEFORE APPROVING THE USE OF A.I.D. LOAN FUNDS TO FINANCE THE SUB-ACTIVITIES. IT IS FURTHER UNDERSTOOD THAT ANY INDICATION OF A POTENTIAL NEGATIVE IMPACT WOULD BE FULLY ASSESSED WITH APPROPRIATE TECHNICAL ASSISTANCE IF NECESSARY. ALL INDICATIONS OF NEGATIVE ENVIRONMENTAL IMPACTS WOULD REQUIRE REMS AND MISSION REVIEW AND INVOLVEMENT IN REDESIGN. SHRIMP POND ACTIVITIES ARE A LIKELY SOURCE OF PROBLEMS AND WOULD REQUIRE AN ENVIRONMENTAL ASSESSMENT (EA). THE MISSION HAS ALSO AGREED THAT NO AID FUNDS WOULD BE APPROVED FOR PROCUREMENT OF PESTICIDES. THE PROJECT PAPER SHOULD REFLECT THESE UNDERSTANDINGS.

7. PAYMENT VERIFICATION

THE MISSION IS REMINDED THAT ALL PROJECT PAPERS MUST FOLLOW THE GUIDANCE PROVIDED ON PAYMENT VERIFICATION POLICY IN THE MEMO FROM AA/M TO MISSION DIRECTORS DATED DECEMBER 30, 1983, PARTICULARLY PP 6-8, WHICH DEAL SPECIFICALLY WITH PROJECT PAPERS.

8. PROJECT PAPER APPROVAL AUTHORITY

BECAUSE OF THE LACK OF AN AGENCY CONSENSUS, BASED ON THE PID PRESENTATION, ON THE LENDING RATE MOST APPROPRIATE FOR LAAD AND THE FACT THAT THE LAAD LOAN WOULD BE AN UNGUARANTEED LOAN TO A PRIVATE ENTITY, THE PROJECT PAPER WILL BE REVIEWED AND APPROVED IN WASHINGTON. WHITEHEAD
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AID 1020-28 (7-71)
SUPPLEMENT 1

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

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

Life of Project:
From FY 86 to FY [illegible]
Total U.S. Funding $15 million
Date Prepared: [illegible]

Project Title & Number: EXPORT AGRIBUSINESS DEVELOPMENT, 596-0123

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Program or Sector Goal: The broader objective to which this project contributes:	Measures of Goal Achievement:		Assumptions for achieving goal targets:
Lay the basis for long-term growth in Central America and Panama by removing financial, management and marketing constraints to nontraditional export growth.	1. $ 27.0 million in non-traditional agricultural exports generated over 3 year life of project.	1. Project monitoring and evaluation plan.	

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PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Project Title & Number: EXPORT AGRIBUSINESS DEVELOPMENT, 596-0123

Life of Project:
From FY 86 to FY 89
Total U.S. Funding $15 million
Date Prepared: July [illegible], 19[illegible]

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Project Purpose:	**Conditions that will indicate purpose has been achieved: End of project status.**		**Assumptions for achieving purpose:**
Expand nontraditional agricultural exports in Central America and Panama, through loans by the Latin American Agribusiness Development Corp. (LAAD) to eligible agribusiness firms, and thereby increase incomes, generate additional foreign exchange and employment, and indirectly enhance other sectors of economic activity.	1. Foreign exchange generated from nontraditional agricultural export sales equals 1.5 times total project funding of $18 million, or approximately $27 million over 3 year life of project. 2. 3,600 new jobs created based on formula of one job for every $5000 of project loan funds and total project funding of $18 million. 3. Income increased of: (a) agribusiness sub-borrowers, (b) employees of agribusiness sub-borrowers, (c) small and medium producers supplying raw materials to sub-borrowers, (d) firms involved in indirect processing, transport, post-harvest packing and storage, and marketing.	1. Project monitoring and evaluation plan.	1. Retention agreements with Central Banks continue in force (these agreements permit a portion of FX earned abroad by sub-borrowers to go directly to LAAD as loan payment). 2. Public sector policies affecting nontraditional exports will be favorable or at least will not deter sub-borrowers from producing for export.

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AID 1020-28 (7-71)
SUPPLEMENT 1

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
From FY 86 to FY 89
Total U.S. Funding $15 million
Date Prepared: [illegible]

Project Title & Number: EXPORT AGRIBUSINESS DEVELOPMENT, 596-0123

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Outputs:	Magnitude of Outputs:		Assumptions for achieving outputs:
Sub-loans made by IAAD to agribusiness firms in Guatemala, Honduras, El Salvador, Costa Rica, Panama and Belize for such exports as fresh fruits and vegetables, processed and frozen fruits and vegetables, flowers and ornamental plants, cardamom, sea-food, nontraditional products derived from traditional exports, (e.g. decaffinated coffee, processed meat), wood products, and dairy products.	1. Average loan of $ 400,000, 15 loans per year over 3 year period.	1. IAAD reports.	

A/C 1020-28 (7-71)
SUPPLEMENT I

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Project Title & Number: EXPORT AGRIBUSINE S DEVELOPMENT, 596-0123

Life of Project:
From FY 86 to FY 89
Total U.S. Funding $15 million
Date Prepared: [illegible]

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Inputs:	Implementation Target (Type and Quantity)		Assumptions for providing inputs:
Activities and Types of Resources	Level of Effort		
1. AID and LAAD counterpart loan funds.	1. $15 million of AID loan funds.	1. AID/LAAD project agreements.	
2. LAAD marketing assistance.	2. $3 million of LAAD counterpart loan funds.		

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PROJECT DESIGN ISSUES

Why LAAD-CA does not make local currency loans for agribusiness development when admittedly it can be less risky and more economical for their subborrower clientele (particularly in Guatemala and El Salvador).

1) Dollars cannot always be purchased in a timely way on the parallel markets of Central America. The sovereign risk of Central Banks not having a sufficient supply of dollars available for export earners has been a problem in the past in the CA/P region. Therefore, delays in obtaining FX through Central Banks and other sources can offset the economic advantages of securing local currency loans for agribusiness development. It is a fact that exporters need dollars in a timely and efficient way in order to meet their import requirements.

2) Furthermore, local currency liquidity for long term development loans is becoming scarce in the CA/P region. Very few institutions are currently making long-term credit available to high risk agribusiness subborrowers. In addition, banking regulations make it difficult for financieras to afford the cost of funds when on-lending rate ceilings make for disincentives to lending long-term. For example, in Costa Rica private financial institutions are having to pay 23% interest on certificates of deposit, which does not allow a sufficient spread for long-term local currency loans to be made at the current rate of approximately 25%. Thus, commercial banks and other financial institutions in Costa Rica are for the most part not making long-term development loans at this time.

3) Qualifying for local currency term loans can be difficult and complex given the existing commercial bank loan processing systems, including collateral requirements, delays in authorizing loans, etc. LAAD borrowing is essentially much easier.

4) Lastly, a local currency lending operation by LAAD would require regional coordination of currency values, and a matching of maturities and exchange risks. LAAD's operational budget does not allow for this type of costly and complex function, or is LAAD's management in favor of such an arrangement.

<u>Why is a three year life-of-project appropriate?</u>

Based on existing demand identified in the region ($25 million) and the need for LAAD-CA to assume an even stronger leadership role for Central American DFCs, ROCAP believes it is in the best interests of the U.S. Government to try to achieve the mid-term objectives of the NBCCA and the CAI by authorizing a three-year project that will include incremental funding up to $15 million. At the same time the project will serve to secure LAAD-CA counterpart funding ($3 million of LAAD's own funds).

<u>Why should AID continue to fund LAAD-CA after having made three loans already and the institution, by its own admission is essentially viable?</u>

LAAD is a unique and highly qualified institution which can facilitate achievement of NBCCA and CAI goals. Shortages of new development funds over the next several years could mean the absence of other qualified lending institutions in the region - thus, there is a need to stick with a known quantity that has proven its developmental impact in the CA/P region and can continue to serve as the most effective DFC in the region.

INITIAL ENVIRONMENTAL EXAMINATION

Project Location	:	Central America and Panama
Project Title and Number	:	Export Agribusiness Development and Promotion (596-0123)
Funding	:	$15 Million
Life of Project	:	3 years (FY 86-89)
IEE Prepared by	:	Frank Zadroga, REMS, ROCAP
Recommended Threshhold Decision	:	Negative Determination based upon actions outlined under Conclusions and Recommendations, Section III.

By: Nadine Plaster
Nadine Plaster

Title: Director, ROCAP

Date: July 15, 1986

I. Project Description

The goal of the project is to lay the basis for long-term growth in Central America and Panama by removing financial, managerial and marketing constraints to non-traditional agricultural export growth. The purpose of the project is to expand non-traditional agricultural exports through growth in agribusiness and agribusiness-related investments in Central America and Panama.

In terms of impact, the project will: (1) provide additional direct and indirect employment opportunities, primarily for rural small farmers and unskiled or semi-skilled labor in agroindustries; (2) increase income specifically in rural areas; (3) increase production and productivity, primarily in non-traditional agriculture; (4) expand extraregional marketing opportunities; (5) facilitate new product and technology development; and (6) increase foreign exchange earnings.

The purpose of the project will be achieved by providing capital, management and technical expertise to improve the functioning of agricultural production, processing, distribution and marketing systems. LAAD-CA will provide financing to agribusiness opportunities which offer substantial potential for impact on the six identified areas.

Most of the projects which will be financed under the loan program include seafood, the freezing and canning of fruits and vegetables, meat processing, wood products, sesame decorticating, oil extraction, growing and processing of basic grains, poultry and egg production, hybrid seed production, cut flowers and ornamental plants, and milk and dairy products. LAAD-CA has acquired much useful experience in these industries and has demonstrated their importance in employment, income and foreign exchange earnings.

II. Identification and Evaluation of Environmental Impact

Given the nature of the project, i.e. that AID will lend funds to LAAD-CA which will then lend to qualifying agribusiness borrowers, it is only possible at this time to make a very generalized statement about its environmental impact.

LAAD-CA will on-lend AID resources to a diverse grouping of agribusiness or agribusiness-related entities operating in the CA/P region. Many of the subprojects will be for established or new agroindustrial processing plants, and it will be possible to significantly mitigate the environmental effects of such projects at the design stage. Since the tentative identification of activities qualifying for loans under the project will occur at the project paper stage, specific impacts will be identified on a case by case basis.

Both aware of and sympathetic to environmental concerns, so evidenced under three prior AID Loans, LAAD-CA has been taking steps to identify and mitigate impacts of its subborrowers. As part of each subproject feasibility analysis, LAAD-CA requires that an opinion of the likely environmental impact be included. This includes, for example, the type of activity to be financed, its physical location, the technology to be employed and the magnitude and significance of any impact.

III. Environmental Analysis

The subloan projects being considered involve a number of activities of potential environmental significance, such as procurement and production of pesticides, shrimp pond construction, cattle and crop production, and the development of new or expanded agroindustries and processing plants. As a condition precedent to AID disbursement of funds, LAAD will develop draft IEEs to be reviewed with the ROCAP REMS on a case-by-case basis. For subloans determined to be environmentally sensitive, field inspections will be carried out by the REMS and a LAAD representative. In cases where potential environmental impacts cannot be mitigated by slight modifications in the project design by the borrower, or where the exact nature of the impact cannot be determined by an initial examination, further assessment work will be scheduled and carried out. LAAD-CA has agreed to use AID loan funds only for environmentally sound projects, and project proposals deemed to have unmitigable significant impacts will not be elegible to receive AID loan funds. Where additional environmental analysis is needed beyond the capabilities of ROCAP's REMS and LAAD-CA technical specialists, the borrower will be expected to finance such studies.

IV. Conclusions and Recommendations

This environmental examination has concluded that some of the activities to be considered for loan financing under this project have the potential for environmental impact. LAAD-CA and ROCAP will work to ensure that environmental assessments will be included under this project and that loan financing provided by AID will be in compliance with relevant environmental concerns and regulations.

PROCUREMENT PLAN

The attached reference to HB 1, Supplement B, Chapter 19 describes the general AID Policy Guidelines which LAAD-CA will be required to adhere to under the project. Initial project implementation activities will include a procurement seminar to be attended by LAAD-CA officials, which will explain in detail all AID rules and regulations applicable to this project.

A waiver will be sought on a case by case basis if it is appropriate to exclude project subborrowers from being required to ship procurement imports only on flag 941 vessels.

PROCUREMENT PLAN SECTION

CHAPTER 19

INTERMEDIATE CREDIT INSTITUTIONS

Policy

1. General

a. This chapter pertains to project assistance only.

b. This chapter states the policies applicable to the procurement of goods and services with AID funds made available to intermediate credit institutions (ICI's). The goods and services in question are procured by the individuals or entities that borrow from an ICI. When the ICI uses AID funds to purchase goods or services for its own account Handbook 11 shall apply to such procurements.

c. The degree of control which AID may exercise over this type of procurement is, as a practical matter, limited by the fact that the subborrower may be separated from the AID borrower by one or more intermediaries and, in addition, the subborrowers frequently are small businessmen or farmers unaccustomed and frequently incapable of responding to many of the conditions normally laid down by an international financing agency.

2. Dollar Procurement

When an ICI or a subborrower uses AID funds to pay for the procurement of goods and services with dollars (foreign exchange), certain procurement policies for projects described elsewhere are applicable. Please refer to Chapter 4, Eligibility, Chapter 5, Source and Nationality (941), Chapter 7, Eligibility of Deliveries (941) Services, Chapter 10, Cargo Preference (50/50), Chapter 11, Insurance, Chapter 17, Eligible Prices, Commodities and Services, Chapter 22, Marking, and Chapter 23, Small Business, of this Supplement. (Under a special rule for ICI's, the small business notification requirement, i.e., publication in "A.I.D. Financed Export Opportunities," is applicable only to procurement under formal competitive procedures.)

3. Local Cost Procurement

There is a wide variation in the capacity of ICI subborrowers to respond in an effective manner to the array of conditions which AID usually applies to the procurement of goods and services. Equally important is the fact that the efficiency with which AID can use its limited implementation guidance and monitoring resources also varies widely as between different classes of subborrowers. For these reasons, policies for local cost procurement are established according to the class of subborrowers. It is understood that the dollar amounts used to define categories of subloans will be converted into reasonably equivalent local currency sums.

a. Subloans the Equivalent of $5,000 or less

(1) AID does not require adherence to any special procurement policies when the ICI subloan to the ultimate borrower is the equivalent of $5,000 or less. Prior to authorizing a loan to an ICI, AID will have assured itself of the soundness and adequacy of the ICI's operational plans and procedures, lending criteria, guidelines, and credit manuals. Moreover, AID will have determined that the ICI can be expected to lend to eligible subborrowers possessing the necessary capabilities to utilize the subloan for the productive purposes intended.

(2) These considerations, plus recognition of the improbability that AID could monitor compliance with procurement policies applied to small subloans, have determined AID policy for this class of subborrowers.

b. Subloans Approved by AID and ICI Procurement

The policies expressed in 19A3c *of this Chapter* are applicable when AID's prior approval of subloans, in any amount, is required in accordance with the terms of the loan agreement, or where an ICI is effecting local cost procurement for its own account.

c. Subloans the Equivalent of More than $5,000

(1) Where a cooperative or another analogous institution is procuring local cost goods or services to satisfy the requirements of subloans made to its members, the combined amount of such subloans will determine whether the provisions of 19A3a or 19A3c *of this Chapter* will apply.

(2) The policies as they apply to ICI local cost financing of subloans referred to in 19A *of this Chapter*, which are similar to those policies prescribed in Chapter 18 *of this Supplement* are as follows:

(a) Eligibility of Commodities

To the extent they are relevant, the policies described in Chapter 4, *of this Supplement* are applicable to local cost financing under ICI's. It should be noted, however, that the Commodity Eligibility List may not specifically apply to projects, and that some goods ineligible for importation under the Commodity Eligibility List could be eligible for local cost financing. Sand, gravel, and limestone are examples. Needless to say, however, statutory restrictions on certain commodities as described in Chapter 4 *of this Supplement* are applicable to local cost financing of projects, e.g., abortion equipment, motor vehicles, etc.

(b) Indigenous Goods

1. Indigenous goods are those of local source and origin that have been mined, grown, or produced in the cooperating country through manufacture, processing, or assembly. If the locally produced goods

contain imported components, a commercially recognized new commodity should result that is substantially different in basic characteristics or in purpose or utility from its components. Such goods may be financed by AID without limitation.

2. However, caution should be exercised in financing produced goods using components imported from other than Code 899 countries, in order to avoid the unintended association of AID funds with products directly identifiable with nonfree world sources.

(c) Imported Shelf Items

Imported shelf items are goods that are normally imported and kept in stock, in the form in which imported, for sale to meet a general demand in the country for the item; they are not goods which have been specifically imported for use in an AID-financed project.

1. Shelf Items Imported from Code 941 Sources

Shelf items are eligible for local cost financing if they have been produced in and imported from a country included in Geographic Code 941.

2. Shelf Items Having Their Source and Origin in Countries Included in Geographic Code 899 but not Geographic Code 941

Shelf items in this category are eligible for financing if the price of one unit of the goods does not exceed $5,000. For goods sold by units of quantity; e.g., tons, barrels, etc., the unit to which the local currency equivalent of $5,000 is applied is that which is customarily used in quoting prices. The total amount of imported shelf item purchases from free-world sources other than Code 941 may not exceed 10 percent of total local costs financed by AID for the project, or $25,000, whichever is higher; however, in no case may the total amount of such purchases exceed $250,000 without first obtaining a specific geographic source waiver. Procurements in excess of the limits specified in this paragraph may be authorized only as source waivers in accordance with the provisions and limitations of Delegation of Authority No. 40 and any redelegation thereunder (see 19D2 *of this Chapter*).

3. Shelf Items Imported from Non-Free World Sources

Imported shelf items produced in or imported from countries not included in Geographic Code 899 are ineligible for AID financing.

4. Compliance

The ICI shall transmit the foregoing rules applicable to shelf item procurement to subborrowers. Overall compliance for each project will be monitored, and any country refund claims in accordance with the loan agreements will be made as necessary.

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(d) Competition

1. ICI subborrowers are expected to follow the general principle of competitive procurement which is applicable to all AID-financed transactions. The pertinent expression of this principle is given in 17A of Chapter 17 *of this Supplement* which states, "The buyer shall pay no more than the lowest available competitive price including transportation costs. The term 'reasonable price' as used in loan, grant, and project agreements means the price which satisfies this test."

2. "The requirement that the buyer pay no more than the lowest available competitive price will be satisfied if the buyer has followed good commercial practices and accepts the most advantageous competitive offer1/, price and other pertinent factors considered such as quality of the goods and services, delivery time, transportation costs, payment terms, availability of spare parts, and installation and repair services."

3. "For procurement through formal competitive bidding procedures, the lowest responsive bid will be accepted as meaning the lowest competitive price."

4. It is anticipated that private subborrowers under ICI loans will normally follow negotiated procurement procedures.

(e) ICI Financing of Contracts for Services

The principles set forth in Chapter 12 *of this Supplement* are applicable to service contracts financed by ICI's for their subborrowers.

(f) The Applicability of Statutory Restrictions to ICI Local Cost Financing

The various provisions of the FAA which pertain to procurement are applicable to local cost financing by ICI's. However, the impact of these provisions is generally minimal. The price provisions (Sections 604(a) and (b) *of the FAA*) do not apply to project assistance although this does not lessen AID's concern that reasonable prices prevail in all transactions that it finances. Cargo preference and the marine insurance restrictions are irrelevant since the commodities are procured within the cooperating country. The Small Business provision has no meaningful application since U.S. small businessman normally do not accept payment in foreign currencies. To the extent they are relevant, the restrictions on commodity eligibility described in Chapter 4 *of this Supplement*, whether having their source in the FAA or in AID policy, are applicable to local cost financing.

1/ In the case of sole source procurement, competitive offers are not required.

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19B. Source of Policy

1. In a large measure, the policies stated in this chapter have the same sources as those applicable to local cost financing. See the "Source of Policy" section of Chapter 18, of this Supplement. The remainder of the policies are based on an administrative determination of AID taking into account the nature of ICI lending operations and AID's experience, primarily in the Latin American region, with those operations.

2. The source of the policy on Small Business is Handbook 15, Chapter 6.

19C. Implementation of Policy

See Handbook 3 and Handbook 11.

19D. Waivers

1. Where this chapter refers to policies that have their primary statements in other chapters of this Supplement, the waiver sections of these other chapters are applicable; e.g., for waiver of commodity eligibility, see Chapter 4 of this Supplement. For policies that are peculiar to ICI's; e.g., the application of requirements to subloans of a certain size, the Geographic Assistant Administrators have waiver authority.

2. Procurement of shelf items imported from the developed free world sources in excess of the limits specified in 19A3c(2)(c)1 may be authorized only by source waivers in accordance with the provisions of Delegation of Authority No. 40 and any redelegations thereunder.1/

1/ When the total value of such procurement exceeds $250,000, a waiver by the responsible AA is required in accordance with paragraphs 5B4b and 5B4c of Chapter 5 of this Supplement. Likewise, when the total value of such procurement exceeds $5,000,000, a waiver by the Administrator is required in accordance with paragraphs 5B4b and 5B4c.

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Demand Projections
(US $)

Product	Amount
Costa Rica	
Construction materials	400,000
Fruits and vegetables	3,100,000
Beef processing	400,000
Cut flowers and plants	2,100,000
Total	6,000,000
El Salvador	
Agro-chemicals	800,000
Fruits and vegetables	1,250,000
Dairy products	1,000,000
Beef processing	900,000
Fisheries	900,000
Cut flowers and plants	600,000
Total	5,450,000
Guatemala	
Agro-chemicals	700,000
Fruits and vegetables	1,900,000
Oils and fats	500,000
Wood and furniture products	1,000,000
Total	4,100,000
Honduras	
Warehousing	500,000
Fruits and vegetables	1,500,000
Cut flowers and plants	250,000
Total	2,250,000

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Demand Projections

Product	Amount
Panama	
Construction materials	1,150,000
Dairy products	900,000
Fruits and vegetables	1,150,000
Beef processing	400,000
Oils and fats	1,000,000
Cut flowers and plants	500,000
Total	5,100,000
Grand Total	$22,900,000

COMPARISON OF FINANCIAL STATEMENTS FOR DEVELOPMENT FINANCE COMPANIES

	LAAD 1985	FIASA 1985	FIDSA 1985	AID 1985	COFISA 1985	[illegible] 1985	FI[illegible] 1985
Cash: Current A/C	228,688	119,065		84,225	1,755,023		[illegible]
Time Deposits	800,000	30,835,551	24,319,172		1,529,235	2,8[illegible]	
Mktable Securities	5,381,286	1,294,550	1,708,192	5,269,102	1,418,246	4,0[illegible]1,292	
Spec. Lic. Fund		12,271,288					
Current Portion - Loans	5,512,809						
Int. & Dividends Receivable	1,307,880	470,456		98,339	177,655	583,775	
Other Receivables	53,856				873,041	630,622	
Intercompany Receivables							
Prepaid Expenses	6,050	49,545	87,500	5,745	14,140	34,773	18,[illegible]
TOTAL CURRENT ASSETS	13,290,569	45,040,455	26,114,864	5,457,411	5,767,340	8,105.448	19.[illegible]
Equity Investments: at cost		447,590	20,237,969		253,623	1,609,312	4,441,4[illegible]
Long Term Loans	11,651,468	51,595,523	41,332,164	2,000,000	13,185,815	25,2[illegible].444	33,396,[illegible]
Tot LT Loans + Equity	11,651,468	52,043,113	61,570,133	2,000,000	13,439,438	26,869,756	37,837,[illegible]
Less: Res for Losses	3,158,339	461,159			2,858,570		
NET LT LOANS + EQUITY	8,493,129	51,581,954	61,570,133	2,000,000	10,580,868	26,869,756	37,837,[illegible]
Fixed Assets	31,552	41,849	549,343	229,170	1,877,197	1,699,298	22,[illegible]
Other Assets	41,071	4,202,415	967,664	7,247	1,335,986	1,712,502	200,[illegible]
TOTAL NON-CURRENT ASSETS	8,565,752	55,826,218	63,087,140	2,236,417	13,794,051	30,281,556	38,060,[illegible]
TOTAL ASSETS	21,856,321	100,866,673	89,202,004	7,693,828	19,561,391	38,387,004	38,080,1[illegible]
Cur. Portion LT Debt-AID	1,003,880						
Cur. Portion LT Debt-Banks							
ST Debt	394,883	7,203,108	7,536,305		9,221,621	1,074,949	2,624,6[illegible]
A/C Payable	9,682	.	1,138,678	30,715	529,309	1,665,552	146,[illegible]
Accrued Interest Payable	94,357				51,878	287,826	5[illegible]
Intercompany Payables							
Deferred Compensation							
Deposits/Cert of Deposit		73,369,050	72,016,175		786,158	12,290,583	31,024,[illegible]
Other		3,999,739	1,273,229		592,487	34,894	12,[illegible]
TOTAL CURRENT LIABILITIES	1,392,801	84,569,897	81,964,387	30,751	11,181,753	15,414,119	33,809,[illegible]
AID Loans	12,073,005	4,111,523					
Bank Debt						19,761,841	
TOTAL LT DEBT	12,073,005	4,111,523				19,761,941	
Common Stock	2,000,000	2,500,000	4,059,000	8,153,892	950,105	2,462,[illegible]	3,000,[illegible]
Preferred Stock	2,000,000			7,110			
Retained Earnings	4,390,515	9,685,253	3,178,617	(497,925)	7,429,533	749,[illegible]	1,270,[illegible]
TOTAL CAPITAL	8,390,515	12,185,253	7,237,617	7,663,077	8,379,638	3,211,[illegible]	4,270,[illegible]
TOTAL LIAB. + EQUITY	21,856,321	100,866,673	89,202,004	7,693,823	19,561,391	38,3[illegible]	38,080,1[illegible]

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COMPARISON OF FINANCIAL STATEMENTS FOR DEVELOPMENT FINANCE COMPANIES

Int. Earned-Agribusiness	1,958,454	6,340,878	5,993,140	70,765	3,055,515	4,153,574	4,061,584
Int. Earned-Non-Agribusiness							
Int. Earned-Time Deposits	115,096	3,265,096	2,575,090				
Int. Expense AID	498,597	164,461					
Int. Expense Banks	46,695	6,280,974	7,021,000	64,149	588,365	1,645,469	3,217,494
Int. Expense Interco. Loans	27,582						
Other Funds Expenses			881,000			1,691,047	
AID Overage Interest							
TOTAL FUNDS COST	572,875	6,445,435	7,902,000	64,149	588,365	3,336,516	3,217,494
NET REVENUE FROM FUNDS	2,387,006	3,176,002	766,230	994,546	3,150,816	2,209,055	844,090
Other Income		57,750	500,000	50,269	608,875	129,133	23,824
Dividends Earned	3,711	[illegible],205	1,000,000				910,799
EXPENSES							
Personnel	496,476	427,253		180,304		467,828	66,200
Prof. Svcs	59,923	170,622					1,905
Office Exp.	74,382			61,018			
Travel	88,649						
Public Relations	18,652						
Taxes	6,236						
Other	54,543	251,911		283,306		910,869	374,851
Depreciation & Amortization	22,130	12,788				121,809	34,374
TOTAL OPERATING EXPENSES	820,991	862,574	700,000	524,628	4,863,468	1,500,506	477,330
GROSS INCOME	1,569,726	2,416,383	1,566,230	520,187	(1,103,777)	837,682	1,301,383
PROVISION FOR LOAN LOSSES	399,600		75,000	495,515		271,723	
NET INCOME	1,170,126	2,416,383	1,491,230	24,672	(1,103,777)	565,959	1,301,383
ANALYSIS							
YIELD ON TOTAL ASSETS	13.56	9.64	11.40	14.41	22.07	14.78	13.12
SPREAD TA/COST OF FUNDS	2.62	6.38	8.86	0.83	2.85	8.69	8.45
SPREAD-TA/OPER EXP.	3.76	0.86	0.79	6.82	24.86	3.91	1.25
SPREAD-TA/PROV FOR LOSSES	1.83	0.00	0.08	6.44	0.00	0.71	0.00
SPREAD-TA/NET INCOME	5.35	2.40	1.67	0.32	-5.64	1.47	3.42
	13.56	9.64	11.40	14.41	22.07	14.78	13.12
RETURN ON EQUITY	13.95	19.83	20.60	0.32	-13.17	17.63	30.47
LEVERAGE	1.60	7.28	11.32	0.00	1.33	10.95	7.92

5C(1) - COUNTRY CHECKLIST

Listed below are statutory criteria applicable generally to FAA funds, and criteria applicable to individual fund sources: Development Assistance and Economic Support Fund.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FAA Sec. 481(h)(1); FY 1986 Continuing Resolution Sec. 527. Has it been determined or certified to the Congress by the President that the government of the recipient country has failed to take adequate measures or steps to prevent narcotic and psychotropic drugs or other controlled substances (as listed in the schedules in section 202 of the Comprehensive Drug Abuse and Prevention Control Act of 1971) which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country to United States Government personnel or their dependents or from entering the United States unlawfully?

   No

2. FAA Sec. 481(h)(4). Has the President determined that the recipient country has not taken adequate steps to prevent (a) the processing, in whole or in part, in such country of narcotic and psychotropic drugs or other controlled substances, (b) the transportation through such country of narcotic and psychotropic drugs or other controlled substances, and (c) the use of such country as a refuge for illegal drug traffickers?

2"

3. FAA Sec. 620(c). If assistance is to a government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) the debt is not denied or contested by such government?

N/A

4. FAA Sec. 620(e)(1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?

N/A

5. FAA Sec. 620(a), 620(f), 620D; FY 1986 Continuing Resolution Sec. 512. Is recipient country a Communist country? If so, has the President determined that assistance to the country is important to the national interests of the United States? Will assistance be provided to Angola, Cambodia, Cuba, Iraq, Syria, Vietnam, Libya, or South Yemen? Will assistance be provided to Afghanistan without a certification?

No

6. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction by mob action of U.S. property?

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7. FAA Sec. 620(l). Has the country failed to enter into an agreement with OPIC? — No

8. FAA Sec. 620(o); Fishermen's Protective Act of 1967, as amended, Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters? — No

(b) If so, has any deduction required by the Fishermen's Protective Act been made?

9. FAA Sec. 620(q); FY 1986 Continuing Resolution Sec. 518. (a) Has the government of the recipient country been in default for more than six months on interest or principal of any AID loan to the country? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the appropriation bill (or continuing resolution) appropriates funds? — No

10. FAA SEC. 620(s). If contemplated assistance is development loan or from Economic Support Fund, has the Administrator taken into account the amount of foreign exchange or other resources which the country has spent on military equipment? (Reference may be made to the annual "Taking Into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.) — Yes

11. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?

No

12. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears were such arrearages taken into account by the AID Administrator in determining the current AID Operational Year Budget? (Reference may be made to the Taking into Consideration memo.)

N/A

13. FAA Sec. 620A. Has the government of the recipient country aided or abetted, by granting sanctuary from prosecution to, any individual or group which has committed an act of international terrorism?

No

14. ISDCA of 1985 Sec. 552(b). Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to section 1115(e)(2) of the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures?

No

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15. FAA Sec. 666. Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA? — No

16. FAA Sec. 669, 670. Has the country, after August 3, 1977, delivered or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.) — No

17. FAA Sec. 670. If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported illegally (or attempted to export illegally) from the United States any material, equipment, or technology which would contribute significantly to the ability of such country to manufacture a nuclear explosive device? — N/A

18. ISDCA of 1981-Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. of Sept. 25 and 28, 1981, and failed to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the Taking into Consideration memo.) — N/A

19. FY 1986 Continuing Resolution Sec. 541. — N/A

Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions?

Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations?

Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?

20. FY 1986 Continuing Resolution. Is the assistance being made available to any organization or program which has been determined as supporting or participating in the management of a program of coercive abortion on involuntary sterilization? If assistance is from the population functional account, are any of the funds to be made available to family planning projects which do not offer, either directly or through referral to or information about access to, a broad range of family planning methods and services?	No
21. FY 1986 Continuing Resolution Sec. 529. Has the recipient country been determined by the President to have engaged in a consistent pattern of opposition to the foreign policy of the United States?	No
22. FY 1986 Continuing Resolution Sec. 513. Has the duly elected head of Government of the country been deposed by military coup or decree?	No

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy?	No

2. Economic Support Fund Country Criteria

No

FAA Sec. 502B. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the country made such significant improvements in its human rights record that furnishing such assistance is in the national interest?

5C(2) PROJECT CHECKLIST

Listed below are statutory criteria applicable to projects. This section is divided into two parts. Part A. includes criteria applicable to all projects. Part B. applies to projects funded from specific sources only: B.1. applies to all projects funded with Development Assistance loans, and B.3. applies to projects funded from ESF.

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

A. GENERAL CRITERIA FOR PROJECT

1. FY 1986 Continuing Resolution Sec. 524; FAA Sec. 634A. — CN

   Describe how authorizing and appropriations committees of Senate and House have been or will be notified concerning the project.

2. FAA Sec. 611(a)(1). Prior to obligation in excess of $500,000, will there be (a) engineering, financial or other plans necessary to carry out the assistance and (b) a reasonably firm estimte of the cost to the U.S. of the assistance? — N/A

3. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance? — N/A

4. FAA Sec. 611(b); FY 1986 Continuing Resolution Sec. 501. If for water or water-related land resource construction, has project met the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See AID Handbook 3 for new guidelines.)

N/A

5. FAA Sec. 611(e). If project is capital assistance (e.g., construction), and all U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability effectively to maintain and utilize the project?

Yes

6. FAA Sec. 209. Is project susceptible to execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs.

Yes; project encourages regional development programs

7. FAA Sec. 601(a). Information and conclusions whether projects will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; and (c) encourage development and use of cooperatives, and credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.

Yes

8. FAA Sec. 601(b). Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise). — Yes

9. FAA Sec. 612(b), 636(h); FY 1986 Continuing Resolution Sec. 507. Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars. — Yes

10. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release? — N/A

11. FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? — Yes

12. FY 1986 Continuing Resolution Sec. 522. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity? — No

13. FAA 118(c) and (d). Does the project comply with the environomental procedures set forth in AID Regulation 16. Does the project or program take into consideration the problem of the destruction of tropical forests?	Yes
14. FAA 121(d). If a Sahel project, has a determination been made that the host government has an adequate sysem for accounting for and controlling receipt and expenditure of project funds (dollars or local currency generated therefrom)?	N/A
15. FY 1986 Continuing Resolution Sec. 533. Is disbursement of the assistance conditioned solely on the basis of the policies of any multilateral institution?	No
16. ISDCA of 1985 Sec. 310. For development assistance projects, how much of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)?	N/A

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B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FAA Sec. 102(a), 111, 113, 281(a). Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status, (e) utilize and encourage regional cooperation by developing countries?

Project will make a positive contribution on all points.

b. FAA Sec. 103, 103A, 104, 105, 106. Does the project fit the criteria for the type of funds (functional account) being used?

Yes

c. FAA Sec. 107. Is emphasis on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?

Yes

d. FAA Sec. 110(a). Will the recipient country provide at least 25% of the costs of the program, project, or activity with respect to whch the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed country)?

Yes, through direct counterpart contribution and subborrower capital requirements.

e. FAA Sec. 122(b). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

Yes

f. FAA Sec. 128(b). If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority?	Yes
g. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civil education and training in skills required for effective participation in governmental processes essential to self-government.	Project will conform to the extent practicable.

2. Development Assistance Project Criteria (Loans Only)

a. FAA Sec. 122(b). Information an conclusion on capacity of the country to repay the loan, at a reasonable rate of interest. — N/A

b. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan? — N/A

3. Economic Support Fund Project Criteria

a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of part I of the FAA?

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

c. ISDCA of 1985 Sec. 207. Will ESF funds be used to finance the construction of, or the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified

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that such country is a party to the Treaty on the Non-Proliferation of Nuclear Weapons or the Treaty for the Prohibition of Nuclear Weapons in Latin America (the "Treaty of Tlatelolco"), cooperates fully with the IAEA, and pursues nonproliferation policies consistent with those of the United States?

d. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?

5C(3) - STANDARD ITEM CHECKLIST

Listed below are the statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by imposing limits on certain uses of funds.

These items are arranged under the general headings of (A) Procurement, (B) Construction, and (C) Other Restrictions.

A. Procurement

1.	FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed?	Yes
2.	FAA Sec. 604(a). Will all procurement be from the U.S. except as otherwise determined by the President or under delegation from him??	Yes, and 941 code
3.	FAA Sec. 604(d). If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company?	N/A
4.	FAA Sec. 604(e); ISDCA of 1980 Sec. 705(a). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)	N/A

5.	FAA Sec. 604(g). Will construction or engineering services be procured from firms of countries which receive direct economic assistance under the FAA and which are otherwise eligible under Code 941, but which have attained a competitive capability in international markets in one of these areas? Do these countries permit United States firms to compete for construction or engineering services financed from assistance programs of these countries?	Yes, Yes
6.	FAA Sec. 603. Is the shipping excluded from compliance with requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates?	No; Waivers on case by case basis
7.	FAA Sec. 621. If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? If the facilities of other Federal agencies will be utilized, are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?	N/A

8. International Air Transportation Fair Competitive Practices Act, 1974. If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available? — Yes

9. FY 1986 Continuing Resolution Sec. 504. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States? — Yes

B. Construction

1. FAA Sec. 601(d). If capital (e.g., construction) project, will U.S. engineering and professional services be used? — Yes

2. FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? — Yes

3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed $100 million (except for productive enterprises in Egypt that were described in the CP)? — Yes

C. Other Restrictions

1. FAA Sec. 122(b). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter? — Yes

FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? — N/A

FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries? — Yes

4. Will arrangements preclude use of financing:

   a. FAA Sec. 104(f); FY 1986 Continuing Resolution Sec. 526. (1) To pay for performance of abortions as a method of family planning or to motivate or coerce persons to practice abortions; (2) to pay for performance of involuntary sterilization as method of family planning, or to coerce or provide financial incentive to any person to undergo — ~~N/A~~

sterilization; (3) to pay for any biomedical research which relates, in whole or part, to methods or the performance of abortions or involuntary sterilizations as a means of family planning; (4) to lobby for abortion?

b. FAA Sec. 488. To reimburse persons, in the form of cash payments, whose illicit drug crops are eradicated? — Yes

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

d. FAA Sec. 660. To provide training or advice or provide any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? — Yes

e. FAA Sec. 662. For CIA activities? — Yes

f. FAA Sec. 636(i). For purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? — Yes

g. FY 1986 Continuing Resolution, Sec. 503. To pay pensions, annuities, retirement pay, or adjusted service compensation for military personnel? — Yes

h. FY 1986 Continuing Resolution, Sec. 505. To pay U.N. assessments, arrearages or dues? — Yes

i. FY 1986 Continuing Resolution, Sec. 506. To carry out provisions of FAA section 209(d) (Transfer of FAA funds to multilateral organizations for lending)? — Yes

j. FY 1986 Continuing Resolution, Sec. 510. To finance the export of nuclear equipment, fuel, or technology? — Yes

k. FY 1986 Continuing Resolution, Sec. 511. For the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights? — Yes

l. FY 1986 Continuing Resolution, Sec. 516. To be used for publicity or propaganda purposes within U.S. not authorized by Congress? — Yes

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3(A)2 NONPROJECT ASSISTANCE CHECKLIST

The criteria listed in Part A are applicable generally to FAA funds, and should be used irrespective of the program's funding source. In Part B a distinction is made between the criteria applicable to Economic Support Fund assistance and the criteria applicable to Development Assistance. Selection of the criteria will depend on the funding source for the program.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? IDENTIFY. HAS STANDARD ITEM CHECKLIST BEEN REVIEWED?

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. FY 1986 Continuing Resolution Sec. 524; FAA Sec. 634A.

   Describe how authorizing and appropriations committees of Senate and House have been or will be notified concerning the project.

   N/A

2. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

3. FAA Sec. 209 Is assistance more efficiently and effectively given through regional or multilateral organizations? If

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so, why is assistance not so given? Information and conclusion whether assistance will encourage regional development programs.

4. FAA Sec. 601(a) Information and conclusions whether assistance will encourage efforts of the country to: (a) increase the flow of international trade: (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.

5. FAA Sec. 601(b) Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

6. FAA Sec. 612(b), 636(h); FY 1986 Continuing Resolution Sec. 507. Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.

7. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

8. FAA Sec. 601(e). Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

9. FAA 121(d). If assistance is being furnished under the Sahel Development Program, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of A.I.D. funds?

10. FY 1986 Continuing Resolution Sec. 533. Is disbursement of the assistance conditioned solely on the basis of the policies of any multilateral institution?

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Economic Support Fund — N/A

a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of part I of the FAA?

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

c. FAA Sec. 531(d). Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106?

d. ISDCA of 1985 Sec. 205. Will ESF funds made available for commodity import programs be used for the purchase of agricultural commodities of United States-origin? If so, what percentage of the funds will be so used?

e. ISDCA of 1985 Sec. 801. If ESF funds will be used to finance imports by an African country (under a commodity import program or sector program), will the agreement require that those imports be used to meet long-term development needs in those countries in accordance with the following criteria?

(i) spare parts and other imports shall be allocated on the basis of evaluations, by A.I.D., of the ability of likely recipients to use such spare parts and imports in a maximally productive, employment generating, and cost effective way;

(ii) imports shall be coordinated with investments in accordance with the recipient country's plans for promoting economic development. A.I.D. shall

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assess such plans to determine whether they will effectively promote economic development;

(iii) emphasis shall be placed on imports for agricultural activities which will expand agricultural production, particularly activities which expand production for export or production to reduce reliance on imported agricultural products;

(iv) emphasis shall also be placed on a distribution of imports having a broad development impact in terms of economic sectors and geographic regions;

(v) in order to maximize the likelihood that the imports financed by the United States under the ESF chapter are in addition to imports which would otherwise occur, consideration shall be given to historical patterns of foreign exchange uses;

(vi)(A) seventy-five percent of the foreign currencies generated by the sale of such imports by the government of the country shall be deposited in a special account established by that government and, except as provided in subparagraph (B), shall be available only for use in accordance with the agreement for economic development activities

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which are consistent with the policy directions of section 102 of the FAA and which are the types of activities for which assistance may be provided under sections 103 through 106 of the FAA;

(B) the agreement shall require that the government of the country make available to the United States Government such portion of the amount deposited in the special account as may be determined by the President to be necessary for requirer ts of the United States Government.

f. ISDCA of 1985 Sec. 207. Will ESF funds be used to finance the construction of, or the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such country is a party to the Treaty on the Non-Proliferation of Nuclear Weapons or the Treaty for the Prohibition of Nuclear Weapons in Latin American (the "Treaty of Tlatelolco"), cooperates fully with the IAEA, and pursues nonproliferation policies consistent with those of the United States?

g. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?

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2. Nonproject Criteria for Development Assistance

a. FAA Sec. 102(a); 111; 113; 281(a). Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level; increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries?

N/A

b. FAA Sec. 103, 103A, 104, 105, 106, 107. Is assistance being made available: (include only applicable paragraph which corresponds to source of funds used. If more than one fund source is used for assistance, include relevant paragraph for each fund source.)

(1) [103] for agriculture, rural development or nutrition; if so (a) extent to which activity is specifically designed to increase productivity and income of rural poor; [103A] if for agricultural research, full account shall be taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made; (b) extent to which assistance is used in coordination with efforts carried out under Sec. 104 to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value, improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration of poor and vulnerable people; and (c) extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.

(2) [104] for population planning under sec. 104(b) or health under sec. 104(c); if so, extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems and other modes of community research.

(3) [105] for education, public administration, or human resources development; if so, (a) extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, or strengthens management capability of institutions enabling the poor to participate in development; and (b) extent to which assistance provides advanced education and training of people in developing countries in such disciplines as are required for planning and implementation of public and private development activities.

(4) [106] for technical assistance, energy, research, reconstruction, and selected development problems; if so, extent activity is: (i)(a) concerned with data

collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and (b) facilitative of geological and geophysical survey work to locate potential oil, natural gas, and coal reserves and to encourage exploration for potential oil, natural gas, and coal reserves.

(ii) technical cooperation and development activities, especially with U.S. private and voluntary, or regional and international development, organizations;

(iii) research into, and evaluation of, economic development processes and techniques;

(iv) reconstruction after natural or manmade disaster;

(v) for special development problems, and to enable proper utilization of earlier U.S. infrastructure, etc., assistance;

(vi) for special development, especially small labor-intensive enterprises, marketing systems, and financial or other institutions to help urban poor participate in economic and social development.

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(5) [107] is appropriate effort placed on use of appropriate technology? (Relatively smaller, cost-saving, labor using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor.)

c. FAA 118(c) and (d). Does the assistance comply with the environmental procedures set forth in AID Regulation 16. Does the assistance take into consideration the problem of the destruction of tropical forests?	Yes
d. FAA Sec. 281(b) Describe extent to which the activity recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.	Will so recognize
e. FAA Sec. 122(b) Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?	Yes

MISSION DIRECTOR'S GRAY AMENDMENT CERTIFICATION

"I, Nadine Plaster, as Director of the Regional Office of Central American Programs, hereby certify that the procurement plan was developed with full consideration of maximally involving Gray Amendment organizations in the provision of required goods and services of LAAD-CA subborrowers, and that the Agribusiness Export Development and Promotion Project is appropriate for minority or Gray Amendment organizational contracting."

Nadine Plaster

Nadine Plaster
Director

July 15, 1986
Date

GRAY AMENDMENT OPPORTUNITIES

It is anticipated that Gray Amendment defined firms will express interest in the provision of services and/or commodities to be purchased by LAAD-CA and LAAD-CA subborrowers as a direct result of loan activities financed under the project. Similar consideration and encouragement for Gray Amendment firms will be available through indirect procurement activities related to project loan activities.

Given the ICI nature of the project, LAAD-CA is required to comply with all AID procurement regulations stated in HB 1, Supplement B, Chapter 19.