PD-AAT-839
ISN = 46082

UNCLASSIFIED

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

HAITI

PROJECT PAPER

DEVELOPMENT FINANCE CORPORATION
(Amendment #1)

AID/LAC/P-280 &
P-118

Project Number:521-0154

UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

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

DOCUMENT CODE: 3

2. COUNTRY/ENTITY: Haiti

3. PROJECT NUMBER: 521-0154

4. BUREAU/OFFICE: LAC 05

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

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM DD YY 05 31 88

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

A. Initial FY 83 B. Quarter 1 C. Final FY 88

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)	(1,800)	( )	(1,800)	(10,000)	( )	(10,000)
(Loan)	( )	( )	( )	( )	( )	( )
Other U.S. 1.						
Other U.S. 2.						
Host Country DFC		500	500		2,000	2,000
Other Donor(s)						
TOTALS	1,800	500	2,300	10,000	2,000	12,000

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	2. Loan	D. OBLIGATIONS TO DATE 1. Grant	2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	2. Loan	F. LIFE OF PROJECT 1. Grant	2. Loan
(1) ESF	730	810		5,000		5,000		10,000	
(2)									
(3)									
(4)									
TOTALS				5,000		5,000		10,000	

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

11. SECONDARY PURPOSE CODE: 770

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

A. Code	INTR						
B. Amount	5,000						

13. PROJECT PURPOSE (maximum 480 characters)

To continue with the establishment of a viable private development finance corporation providing medium/long-term capital for industrial and agro-industrial projects in Haiti.

14. SCHEDULED EVALUATIONS

Interim MM YY MM YY — Final MM YY 12 87

15. SOURCE/ORIGIN OF GOODS AND SERVICES

☐ 000 ☒ 941 ☒ Local ☐ Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a 37 page PP Amendment.)

The goal and purpose remain essentially the same as those of the original project. The ultimate objective is to fully develop a self-sustaining institution with a sound reputation of providing capital to dynamic entrepreneurs capable of expanding Haiti's economy and employment base. To maintain solvency, ensure continued profitability and expand operations to agri-business and rural-based enterprises, an additional $5.0 million grant is required for lending capital ($4.3 million) and technical assistance ($0.7 million).

17. APPROVED BY

Signature: Jerome French

Title: Director, USAID/Haiti

Date Signed: MM DD YY 03 25 86

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

AID 1330-4 (8-79)

Authorization Amendment

Amendment Number One

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

1. Pursuant to Chapter VI of the Supplemental Appropriations Act of 1982, the Development Finance Corporation Project for Haiti was authorized on October 18, 1982. That Authorization is hereby amended as follows:

   The first paragraph is amended by (i) deleting the words <<Five Million United States Dollars ($5,000,000)>> and substituting in lieu thereof the words <<Ten Million United States Dollars ($10,000,000)>>; (ii) adding immediately after the words <<Chapter VI of the Supplemental Appropriations Act of 1982>> the following words <<and Section 531 of the Foreign Assistance Act of 1961, as amended>> and (iii) deleting the final sentence, i.e., <<The entire amount of the A.I.D. financing herein authorized ($5,000,000) for the project will be obligated when the Project Agreement is executed>>.

2. I hereby authorize the initiation of negotiation and execution of the Project Agreement Amendment by the officer to whom such authority has been delegated in accordance with A.I.D. regulations and Delegations of Authority.

3. The authorization cited above remains in force except as hereby amended.

Jerome T. French
Director, USAID/Haiti

Clearances:

OPED: R.Moyers
DRE: B.Burnett
CONT: C.Brooks
D/DIR: L.Morse
RLA: T.Carter (draft)

TABLE OF CONTENTS

\\

F. Financial Tables
G. DFC Cost-Benefit Analysis
H. October, 1985 Market Assessment (available in USAID/OPED files)
I. August, 1985 Evaluation of the DFC (available in USAID/OPED files)
J. Interest Rate Analysis

Project Development Team

USAID/Project Committee

Reese Moyers, Chief, Office of Private Enterprise Development (OPED)
James Berezin, Private Sector Officer (OPED)
Jan Turcan, Agribusiness Investment Specialist (OPED)
Barry Burnett, Chief, Office of Development Resources and Evaluation (DRE)
Richard Burns, Project Development Officer (DRE)
James Walker, Chief, Office of Economic Analysis (OEA)
Vincent Cusumano, Chief, Office of Agricultural and Rural Development (ADO)
Chuck Brooks/James Ahn, Office of the Controller (CONT)
Margareth Cesar, Secretary/Typist (OPED)

First Washington Associates
Delio Gianturco, President

Price Waterhouse and Associates
Alain Godeau, Resident Director

Development Finance Corporation
Board of Directors and General Manager

\\\

I. BACKGROUND AND RATIONALE

A. USAID/Haiti Private Sector Development Strategy

Of central concern to USAID's private sector development strategy in Haiti is employment generation through the promotion of industrial and agro-industrial development. The estimated 1982 unemployment-equivalent rate, which incorporates both open unemployment and underemployment, is estimated at 48% in the urban sector and 47% in the agriculture sector. Furthermore, manpower studies project that employment will increase at a slower rate than the economically active population.

Since Haiti's projected employment generation will not reach a level commensurate with population growth, increased investment in Haiti's industrial and agricultural sectors must be emphasized as a means to generate additional employment. Thus, the impact of policies and projects which affect local and foreign investment are of primary concern in the Mission's private sector development strategy. To achieve the goals of increased investment and consequent employment generation in Haiti, both Haiti's public and private sectors must be committed to collaborating in the design and implementation of mutually agreed upon policies and programs to expand investment in the industrial and agriculture sectors. The Mission's private sector development strategy directly assists in achieving these goals.

The strategy seeks to provide sound foundations for sustained growth in the private sector, which will increase opportunities for gainful employment. Our approach in supporting the development of this sector is to facilitate investment in the export-oriented assembly manufacturing and the agro-industrial sectors. The means for reaching this goal include an emphasis on institution building and policy reform conducive to substantial private sector development. The Mission's strategy supports the establishment of an integrated institutional framework to promote continued private sector expansion. An important element of the strategy is to create viable enterprises and institutions that can operate efficiently without perpetual subsidy, thereby permitting a given level of A.I.D. resources to have a greater impact on private sector development.

The Mission's private sector development program is designed to provide critical inputs in order for local and foreign investors to take advantage of the Caribbean Basin Initiative. The program includes a coordinated strategy with the objectives of institutionalizing intermediate credit facilities, developing non-traditional export programs, management training and export promotion programs, and a major policy reform initiative to improve the investment climate.

B. Summary of Original Project Rationale and Design

The DFC project reflected a major strategic objective of the Mission's private sector development strategy, which was to design a development finance institution that would provide medium and/long term capital and support services to new or expanding industrial and agro-industrial projects. Another critical aspect of the strategy was to take advantage of an opportunity to benefit from and reinforce the energy and resources of Haiti's dynamic private sector, which is the most progressive element of the society and economy. Furthermore, it was to provide a concrete response to this opportunity by building an institutional capacity to promote private initiative and economic growth in a manner which reflects the aid, trade, and private investment thrust of the Caribbean Basin Initiative (CBI). If successful, the project would stimulate new industrial and agro-industrial investment in Haiti that would create employment and increased income for the unemployed poor majority (both skilled and unskilled workers), generate critical foreign exchange, and increase the government's tax revenue base.

Consequently, in March, 1983, A.I.D. signed a $5.0 million grant agreement to support the creation of the Development Finance Corporation. The DFC's primary aim was to give special emphasis to financially and developmentally high return projects of small and medium size investors and investments with the potential for generating significant employment. Entrepreneurs in Haiti operate in a difficult financial environment characterized by a limited availability of funds, shortage of foreign exchange, and inadequate development financing. The government-sponsored National Bank for Agricultural and Industrial Development (BNDAI) is inefficient and preoccupied with government-oriented projects. Private commercial banks have limited their outreach to established businessmen who are considered prime credit risks. Additionally, the World Bank-sponsored Industrial Development Fund, a rediscount and credit guaranty facility which operates through the commercial banking network, has not substantially expanded term credit because of excess bank liquidity in gourdes due to the current foreign exchange shortage, the lack of full dollar reimbursement for discounted dollar loans, and a generally low spread from the discount rate. As a result, commercial banks tend to concentrate on short-term loans to the commercial sector in the Port-au-Prince area.

Thus, a major rationale for the project was to meet the urgent need to expand the availability of formal credit and financial services to entrepreneurs who would open and sustain new markets for Haitian products, create jobs, and increase economic opportunities for the growing urban population.

An important technical aspect of the original design required the establishment of a special trust fund to be administered by a private non-profit institution for repayment of A.I.D.'s $4 million capital contribution over a 20 year period with a ten year grace period at an annual interest charge of 5%. This mechanism was included as a means of providing direct support for other future private sector activities. The trustee is the Haitian Development Foundation.

C. Original Project Implementation Goals and Accomplishments

The August, 1985, evaluation of the project conducted by First Washington Associates (See Annex I) verifies the degree of success the project has experienced in less than two years of operational activity. During that period all A.I.D. loan funds were committed. The evaluation concluded that the DFC is a well-managed organization with strong leadership, enjoys an excellent interchange between Board members and key officers, and has sound operating manuals and systems. In carrying out its mandate the DFC has succeeded in balancing financial viability with the risk-taking required to attain its development objectives. A major accomplishment has been the successful financing of a wide variety of industrial sub-sectors. Overall, the management, Board of Directors, and staff of the DFC have followed policies which emphasize the approval of loans to small and medium enterprises, while still maintaining financial soundness.

The evaluators were particularly impressed with the DFC's strong leadership, due principally to the active participation of its Board of Directors and the services of an experienced General Manager. The small staff has an image in the community of professional competence that compares favorably to other financial institutions in the country and to similar institutions in other developing countries. The institution reached breakeven at the end of fiscal 1985 and, with additional A.I.D. funding, is projected to continue profitability in fiscal 1986 and beyond. Original project implementation goals and accomplishments are summarized as follows:

1. Financial Management and Viability

Every DFC project has to face the dilemma of balancing profitability and financial viability with risk taking and development objectives. The DFC has done a commendable job of establishing itself on a firm foundation with loans which have a sound basis for repayment and establishing a strong staff with skills and capability to grow on the job through training and experience. In achieving these goals within a short period of time, the DFC had to choose between accommodating experienced entrepreneurs in established industrial areas, and the development of industry outside of the Port-au-Prince area, which involved greater risk taking with smaller projects and less experienced managements. As a development institution, the DFC works closely with clients to properly restructure their businesses, thus enabling the realization of projects and the creation of jobs which might otherwise have been delayed or not appropriately conceived from a technical or a financial point of view.

2. Development of a Viable Loan Portfolio

The DFC had a total of $3,575,000 in outstanding loans as of September 30, 1985. All but one loan is medium to long term in nature with an average tenure of four years. Correspondingly, all loans carry guarantees, first mortgages, pledges of equipment, pledges of receivables, or cash collateral. Eighteen out of 27 projects, or 66% of the portfolio, represent small enterprises. The majority of these smaller enterprise loans are to initiate entirely new enterprises or new activities within existing enterprises. The portfolio is further broken down into risk categories (See Section II.B., Project Activities, for a detailed discussion). The major industrial categories within the portfolio consist of approximately 30% of the loans in the assembly sector, 22% in construction, 19% food and drugs, 11% garments, and 18% in various other sectors.

Currently, in order to maintain a slight competitive edge in a high liquidity market most loans are booked at 14.5% per annum versus 16% envisioned in the Project Paper. Interest rates charged by the DFC for larger clients are competitive with short-term commercial bank loans. Correspondingly, they are lower than commercial bank loans for smaller clients. On a limited basis the DFC has made working capital loans and by special authorization higher lending limit credits in order to increase income and expand its market. A major objective to these exceptions is to generate future term financing opportunities by properly targeting working capital loans.

Another of the DFC's major objectives in its initial operating stage was to establish profit and dividend prospects so that new equity can be obtained to expand the capital base. In that regard the DFC has developed a sound portfolio base on which to expand and balance its loans into riskier lending categories in spite of tangible market constraints. Those include a difficult economic conjuncture resulting in a restricted universe of viable projects coupled with excess market liquidity.

3. Creation of New Employment Opportunities

It is estimated that the 27 projects financed to date have created approximately 2,220 permanent jobs which is in excess of the Project Paper's projections of 1,700 by this date.

4. Expanded Financial Services to the Agricultural Sector

The DFC has not yet met its objectives in the provincial areas due to the lack of viable project applications and concerns about the added costs/risks of developing projects in agribusiness. In order to prudently increase the institution's involvement in this sector, the amended project will provide agribusiness lending technical assistance as well as additional staff training specifically targeted towards agribusiness lending activities.

5. Increase in Foreign Exchange Earnings

As of September 30, 1985, the DFC's clients have generated over $8 million in foreign exchange earnings. The DFC has done well in meeting this objective and will continue to be an important catalyst in stimulating foreign exchange earnings.

6. Development of Investment Banking and Co-Financing Programs

The DFC has syndicated two locally co-financed projects with commercial banks, which represents a first in Haitian business circles.

This type of financing is very time consuming and requires a depth of financial experience which the DFC has not developed as a primary objective because of its limited resources. The institution recognizes that co-financing can be a very attractive way for financial institutions to synergize their resources, and future opportunities will be considered as resources and time permit.

7. Mobilization of Local Savings

There have not been sufficient bankable projects to warrant the high cost of local borrowing. However, the DFC is constantly reviewing its cost of funds against potential sub-project demand, and funds could be raised through the issuance of three to five year notes or borrowings on the interbank market if warranted.

8. Provision of Support Services

The DFC is providing client services in the critically important areas of project development, technical evaluation, accounting systems design, financial management, and related fields. These services are rendered as part of the project application and approval process and constitute a vital development function.

The DFC management is keenly aware of the importance of meeting all objectives; however, during the first phase, management and the Board have appropriately placed the highest priority on achieving financial viability, thereby facilitating the mobilization of domestic capital and developing medium and long-term industrial credit and job creation.

D. Rationale for Proposed Amendment

1. Further Development of Original Project Paper Goals

The DFC is operating in an environment not conducive to rapid economic development, it faces many challenges. Its impact has been limited by the need to establish its staff, operating procedures, and a viable portfolio. However, the DFC results to date are commendable considering the relatively short life span of the institution and the unrealistic assumptions contained in the original Project Paper. Since many enterprises in Haiti are financed by commercial banks rolling over short- term funding, the DFC had to develop a strong clientele whose appreciation of long-term lending was not always present. In the case of smaller firms, the DFC has had to expend many man-days of technical assistance which has meant that, until recently, the earnings have not covered the operating costs.

The DFC can now undertake greater risks in its economic development mission. It must continue to generate attractive profits in order to raise new capital and to strengthen its staff as it embarks on an increased risk-taking course with a variety of financing methods. To remain financially strong and progressive it must balance smaller and riskier operations, particularly in the agribusiness sector, with larger projects and experienced sponsors. It also must remain flexible in competing with other financial institutions with greater resources, more diversified portfolios, and short-term operations.

In order to maintain solvency and ensure its ongoing success and profitability, the DFC will require a second tranche of A.I.D. funds totaling $5.0 million beginning in fiscal 1986. These funds are required to broaden the solid funding base, to provide important technical assistance services, to maintain the confidence of existing investors as well as to gain the confidence of potential investors. Furthermore, with the tangible development impact which the DFC has thus far achieved, a second tranche will be a productive use of bilateral funds and foreign exchange in the local economy.

2. Market Assessment

As the original project was implemented, it soon became evident that the market projections prepared during project design were very optimistic. Based on an individual client loan ceiling of $150,000, resulting in an average loan of $100,000, the survey would require the DFC to approve approximately 546 sub-projects over its initial ten year operating period. As an example of the difficulty in meeting such projections, the survey targeted the DFC's 142 shareholders as a large potential market for initial financing. However, after careful analysis only 14 were considered eligible for a loan in the short to medium-term, of which just six have actually undertaken new or expanded projects. Additionally, the projections assumed that the staff would involve itself to a "certain extent" in the design and analysis of small and medium-size projects. However, poor project preparation became the major reason for the institution's initial low application approval rate, and drastic improvement in that skill area was required before a reasonable number of projects could be processed. The result of this unexpected situation was that a modified portfolio strategy was necessary. A larger volume of less risky sub-projects were financed in order to allow the DFC staff sufficient time to properly develop the small and medium enterprise market.

Based on this experience a market assessment was conducted by Price Waterhouse in October, 1985, to estimate the potential accessible markets for the DFC during the next four years (See Annex H). The study recognized that insufficient statistics existed concerning the DFC's small and medium enterprises target market. However, the macro-economic methodology employed did succeed in establishing the global demand for medium and long-term credit and the portion of that market which the DFC could penetrate. This was accomplished by segmenting the global market into four categories which historically have had an adjusted annual demand of $180-200 million in total credit. These categories in 1985 include:

a. The Traditional Market - This $120 million market is composed of the loan demand satisfied by the traditional commercial banking sector in the industrial areas, mostly term needs.

b. The Non-Traditional Market - This market is estimated at $30 million and includes those businesses whose loans have been rejected for one reason or another by the traditional banking sector.

c. The Emerging Market - This $5.0 million market constitutes projects in the conceptualization stage, which have not formally been presented to a financial institution.

d. The Foreign Market - This $30 million market is composed of foreign bank loans for equipment and services purchased for foreign companies operating in Haiti.

These markets were then conservatively analyzed to determine the potential four year demand for DFC financing, which is summarized as follows:

($000)	1986	1987	1988	1989
Traditional Market	3,879	4,623	5,434	6,424
Non-Traditional Market	1,948	3,469	5,550	7,987

.../...

.../...

Emerging Market	1,060	1,698	2,114	2,604
Foreign Market	-	-	-	-
DFC Total	6,887	9,790	13,098	17,015

The results summarized in the above table are very significant in light of the DFC's future project activities (See Section II.B) and its financial projections (See Section IV.A). The non-traditional and emerging markets analyzed in the study generally correspond to the more risk-oriented small and medium enterprise market targeted for the DFC's future portfolio diversification strategy. It is also encouraging that the DFC projects a total portfolio growth confortably less than the forecasted market. A substantially wide margin of potential global demand as compared to the DFC's actual requirements for portfolio expansion is considered critical to the expansion of a quality small and medium enterprise portfolio.

3. Relationship to A.I.D. Development Strategy in Haiti

The focus of the Mission's development strategy is a systematic attack on the basic constraints to economic development in Haiti with emphasis on the four pillars-policy dialogue, institutional development, utilization and development of the private sector, and technology transfer to help bring about fundamental change. The Mission has identified those basic constraints to be:

a. natural resource degradation and related decline in agricultural production;

b. inadequate private sector employment opportunities;

c. weak human resource base.

The DFC project uniquely incorporates all four pillars, while at the same time addressing the problem of inadequate private sector employment opportunities. As already discussed in Section I, A, the rapid growth of Port-au-Prince is due to both natural population growth and in-migration with attendant high unemployment. Although the urban industrial sector is the most dynamic in the Haitian economy, it cannot currently meet the need for additional jobs. Thus, the Mission's near-term strategy includes a further expansion of the employment gains resulting from the DFC's operations by providing additional capital and technical resources to this institution. This will include the provision of additional loan capital for the DFC's lending program, particularly to smaller industries and agribusinesses outside the Port-au-Prince area, and the provision of technical expertise to help assure the development and execution of sound industrial and agribusiness projects.

II. DESCRIPTION OF PROJECT AMENDMENT

A. Goal and Purpose

The goal of the project will remain the same as that of the original project: to stimulate industrial growth in both the manufacturing and industrial sectors of Haiti which will result in increased levels of employment and income. The ultimate objective is to fully develop a self-sustaining institution with a sound reputation of providing capital to dynamic entrepreneurs capable of expanding Haiti's economy and employment base. Accordingly, this amendment will strengthen the capability of the DFC to extend credit and other financial services to riskier borrowers such as smaller enterprises and agribusinesses.

The purpose of the project is also the same as that of the original project: to continue the establishment of a viable development finance corporation providing medium/long term capital for industrial and agro-industrial projects in Haiti. The DFC will continue to make progress towards financial viability through improvements in its management and operational systems, expansion of its capital base, and most importantly, its ability to offer expanded financial services.

B. Relationship to GOH and Other Donor Priorities

The GOH's development strategy as stated in its Five Year Plan (1981-1986) emphasizes that, in order to achieve economic growth and national development, policies must be formulated to stimulate private enterprise and a free market economy. The private sector is slated to play a dominant role in increasing production of virtually all goods and services. Towards this end, AID encouraged the formation of the Permanent Mixed Committee for Investment Promotion in 1984. This Committee is facilitating the dialogue between the public and private sectors required for policy reform and long-term private sector growth. Within this context the GOH has welcomed the DFC as a vital link in creating viable private sector enterprises.

The DFC works closely with the Industrial Development Fund, which is a discount and guarantee facility established by the World Bank. On a limited basis the Fund is utilized to provide guarantees for especially risky sub-projects. The World Bank's June, 1985, Haiti Policy Proposals for Growth report notes that Haiti's export industries have penetrated a minuscule part of the North America and European markets and that its agro-industrial opportunities have also been largely unexploited. The report further states that Haiti's most urgent financial institutional need is the development of a strong institution capable of extending long-term and working capital loans to viable agribusinesses and capable of analyzing industrial development projects in depth from a technical, financial and economic perspective. This is precisely the long-term role the DFC should fulfill.

The Interamerican Development Bank supports the National Bank for Agricultural and Industrial Development (BNDAI) and the government industrial park, and both received additional financing in 1984 to expand their operations. The original Project Paper states that BNDAI suffers from a multitude of problems and that the institution is not considered a reliable source of credit by the business community nor a viable, long-term vehicle for stimulating significant industrial growth. Over the past two years the administrative and financial management problems of BNDAI have worsened to the point that a recent IDB mission expressed doubt concerning further IDB support to the institution. Therefore, no duplication of effort or resources are foreseen by the DFC's activities. As far as the government industrial park is concerned, growth in the assembly industry will require an increase in infrastructural support, and IDB and private sector construction plans are critical to the success of AID's private sector development strategy. Thus, the DFC complements the IDB's program in meeting the financial requirements of enterprises occupying new industrial space.

C. Project Activities

A modified program strategy was formulated over the past two years in response to various constraints facing the DFC, including substantially less loan demand than originally projected in the Project Paper, the market's unfamiliarity with the DFC as a new institution and generally unfavorable economic conditions during the period. The original Project Paper underestimated the amount of time required to analyze and prepare an acceptable sub-loan project, when even experienced businessmen provided inadequate operating and financial data. Finally, there were longer than anticipated delays between commitments and disbursements due to the difficulty in assuring each sub-project's collateral and making arrangements for capital goods imports.

Under these difficult circumstances, the Board and management of the DFC, in conjunction with the Mission, decided the first and foremost strategic objective of the DFC was to establish itself as a viable financial institution. This has been achieved by building a portfolio base through an aggressive client call program, two specially approved facilities to generate income through 1987, training a generally inexperienced staff to develop realistic cash flow and in-depth financial analyses, and installing sound operational systems.

In conformity with this strategy, the composition of the DFC's portfolio at 1985 fiscal year end was as follows:

Loan Category Breakdown (September 30, 1985)

	$ (000)	%
Category I (High Risk, Small Entrepreneurs)	677	19%
Category II (Medium Risk, Small Entrepreneurs)	785	22%
Category III (Relatively Low Risk, Medium Sized and Larger Companies)	1,063	30%
Category IV (Low Risk, Limited Special Authorization Medium Term Loan)	900	25%
Category V (Low Risk, Limited Special Authorization Dollar Working Capital Loan Facility)	150	4%
	$3,575	100%

This portfolio mix, including an average lending rate of 14.5% p.a. plus fees, produced a modest profit of $23,000 for FY 1985 against a loss of $117,000 in FY 1984 (See Section IV.A, Amended Financial Analysis for details). In sum, the Phase I program strategy insured that revenues from relatively prime quality income producing loans would fully cover the DFC's overhead and that the staff was given basic credit training through the analysis of less complicated projects before embarking on credits that involved a higher degree of complexity and risk. With this base, the institution can move towards accomplishing its more development-oriented goals. In accordance with this strategy, the DFC's activities over the term of this project, Phase II, will include:

1. <u>Expansion and Balancing of the Loan Portfolio's Risk Groups</u>

   a. <u>Smaller Businesses</u>

The DFC's portfolio plan by the end of 1988 is to have approximately 29% of its portfolio in Category I loans, 34% in Category II, and 37% in Category III. Category IV loans, a limited program to generate income by increasing the term loan limit to prime customers from $150,000 to $300,000 and Category V loans, another limited program to increase income by providing working capital loans to prime clients, have already been terminated. However, the institution's longer-term 1990 goal is to have each of the remaining categories equal one-third of the portfolio, thus achieving an optimal balance. This strategy compares favorably to the World Bank's specific target in recent years of lending one-third of its industrial credit to small scale industry.

The DFC categorizes its loans by level of difficulty in analyzing and packaging a credit. The three basic categories reflect the following criteria:

Category I companies usually have an equity of between $25,000 and $50,000 and are usually run by one entrepreneur. These companies generally have little or no management depth, poor communications systems and financial controls, limited available banking facilities, and look to the DFC as a lender of last resort.

Category II companies usually are characterized by equity of between $50,000 and $100,000 and have some management depth and organization with better, but still inadequate, controls. They tend, like Category I enterprises, to be dominated by an entrepreneur or family that manages by instinct and verbal communications rather than more formalized, documented planning. They may have access to some short-term working capital banking lines but are limited in their access to longer-term credit lines.

Category III companies usually are characterized by equity of over $100,000, have more formalized management, financial controls and systems, and have access to rollover or open maturity facilities with the major banks.

Starting in 1986 the DFC will begin a systematic call program on potential Category I and II clients in the Port-au-Prince area and begin expanding into regional towns such as Cap-Haitian, Gonaives, and Les Cayes as its small lending capabilities increase. The DFC's credit management will focus on those enterprises which have the right balance of quality and development impact in order to maximize its limited staff resources. Potentially attractive clients are companies that service agribusinesses and assembly manufacturing industries, such as small agricultural tool, seed, container, and data processing companies. The recent market survey conducted for Project Paper amendment preparation confirms that small business credit demand exists for the DFC to meet this medium-term objective.

b. Agribusiness Lending

(1) Background

The original Project Paper consistently emphasizes that the goal of the DFC is to stimulate substantial industrial growth in both the manufacturing and agricultural sectors of Haiti. The market survey used for original project design included a sampling of nine agro-industrial firms, which indicated that a loan demand did indeed exist in this sector. Nevertheless, as mentioned earlier, the DFC has not begun to meet the objective of providing agribusiness loans which would in many cases require raw material inputs from small farmers. The reason is primarily that lending inexperience in this sector and the costs/risks of developing projects in rural areas were considered to be constraints far too difficult to overcome during the initial stage of DFC development. Agribusiness lending requires special technical expertise, training, and project analysis not envisioned during project design, and it is only now that the institution is turning the corner to profitability that it can undertake the planning necessary to develop the agribusiness sector as a realistic client base.

During the past two years the Mission has made a considerable amount of effort to interact with representatives of the agribusiness sector, and to further determine if sufficient demand and enthusiasm exists to justify the cost and effort that will be necessary to establish a professional agribusiness lending capability in the DFC. Efforts were initiated in 1983 to investigate the feasibility of producing export quality fresh fruits and vegetables in Haiti. To accomplish this task, a grant was made to a U.S. and Israeli group to examine the potential, initiate studies, organize Haitian growers, and possibly, get fresh fruit and vegetable exportation started in Haiti. The first phase efforts of this project were found unsatisfactory, and funding was discontinued for this endeavor in 1984.

Nevertheless, interest in agribusiness development and diversification continued. Early in 1985, the Mission, in conjunction with an AID/Washington Bureau of Science and Technology project, contracted a resident agribusiness investment advisor to attract both Haitian entrepreneurs to agricultural exports and foreign investors to joint-venture such projects from a production and/or marketing position. Technical mistakes and the inability to successfully market products have been traditional causes of the failures of agro-industrial ventures in Haiti. Thus, the objective of this initiative is to broker a limited number of agro-industrial projects in order to provide evidence that successful investments in this risk-oriented sector are possible. In the meantime (March, 1985) an agribusiness specialist from AID/LAC visited Haiti and produced a practical, market-oriented report titled Haiti - Fresh Vegetable Export Study. This study concluded that the agronomic potential for producing export-quality fresh fruits and vegetables in Haiti was excellent, identified geographic areas for export produce production, and presented a list of fresh vegetable crops with export potential.

In the early months of 1985, a group of Haitian agribusiness representatives interested in the development of export activities initiated efforts to form the Agricultural Producers Association (APA). APA was officially formed in August, 1985. Membership includes vegetable producers, ornamental plant and cut-flower producers, and representatives of almost all of the commercial agricultural activities in Haiti.

To promote further agribusiness development and to support the newly formed APA, the Mission organized and co-sponsored with APA an agribusiness workshop in late August, 1985. The workshop was well attended and recognized as a marked success in both presentation and participation. The momentum resulting from the workshop encouraged a number of Haitian growers to take the risk of investing in export production projects during the 1985/86 winter season. In order to help assure the success of APA and to provide an invaluable demonstration to others, the Mission is financing agronomic technical assistance to APA growers who are attempting export production projects this next season.

(2) Market Demand

The Mission's interaction over the past year with agro-entrepreneurs and recently with APA has resulted in a data base which may offer the best available insight into the market potential for agribusiness lending. Future agribusiness access to credit for working capital and fixed capital investments is considered crucial to generating rural employment, foreign exchange earnings, import substitution, and small farmer participation. Active and potential Haitian agro-entrepreneurs were canvassed to screen serious projects and to determine the realistic credit needs necessary to bring these investments to fruition.

Twenty-two members of APA were interviewed as well as twenty additional agro-entrepreneurs who have presented their projects as a result of AID-financed resident investment brokering services. Of the twenty-two APA members interviewed seven are committed to planting vegetables for the 1986 U.S. East Coast winter vegetable market. The selected vegetables are expected to include: bell peppers, squash, melons, string beans, and cucumbers. The total acreage being prepared for this pilot project is approximately 180 acres with total production and logistical cost estimated at $800 per acre. Therefore, these producers will be required to make a total investment of approximately $150,000. Employment generation in this type of agricultural production is measured by the estimated number of person-days required to produce on one acre during the planting/harvesting season. Consequently, initial projections indicate that approximately 7,500 person-days of employment will be required during the forthcoming winter season cycle of the 180 acre pilot project.

If, as expected, the technical assistance being provided to APA enables this pilot project to become a successful demonstration of vegetable export potential to the U.S., production for next year's market is certain to increase to at least 500 acres with more producer participation and associated increased requirements for employment. Based upon $800 per acre in production and logistics costs, total investment would thus reach an estimated $400,000 of which at least 30%, or $120,000, would require DFC financing. The importance of this limited amount of financing should not be understated. The DFC's capability to respond to these initial requests may well be instrumental in establishing the agribusiness producers' confidence to take greater investment risks since growers cannot continue to increase production without financial assistance. Financing on a seasonal basis will be necessary to overcome the common problem of under-capitalization, which often undermines local capabilities for competing in the complex U.S. market.

APA also has an important sub-group of members active in floriculture, which is a particularly promising sub-sector of Haitian agribusiness. With a number of micro-climates at various altitudes, Haiti is a "natural" for the production of cut-flowers and ornamental plants. This industry is very labor-intensive, but it also requires large investments. Nevertheless, in 1987 it is estimated that the U.S. alone will import cut-flowers and ornamentals valued at $1.2 billion, and Europe will import approximately $400 million. It is interesting to note that Columbia was a net importer of cut-flowers less than ten years ago, and today exports over $300 million in cut-flowers to the United States. To date, three APA member cut-flower projects have been identified as managerially and financially feasible with associated opportunities for substantial employment creation and satellite farming arrangements. Approximately $600,000 in total initial financing would be required for the projects. The largest of the projects is discussed in more detail in Annex C, Case No. 1.

The twenty additional non-APA agro-industrial projects identified through the Mission's brokering activities were screened for technical structuring as well as suitability for financing. These projects cover a wide spectrum of potential products, which have been categorized into Groups A (2 projects), B (2 projects), and C (16 projects), with Group A being actively brokered, Group B having definite potential, and Group C requiring more study or not recommended as feasible. Employment potential is vast, and based upon study and analysis of these projects, a total of approximately $400,000 will be necessary to finance the Group A projects, which are discussed in Annex C, Cases No. 2 and 3.

Present agro-industrial production in Haiti is almost entirely oriented towards local consumption. However, given the limitation of local disposable income it is evident that in order to achieve the objective of increased rural employment and foreign exchange earnings, Haitian agribusiness must be oriented towards the export market. Based on knowledge of local agribusiness investors (see Annex D, Haitian Small and Medium Agribusinesses), there is ample demand to initiate a serious effort on the part of the DFC to service the requirements of that market and diversify its portfolio. The above survey indicates that a conservative market of $500,000 - $750,000 in agribusiness producer and industrial lending presently exists. It is apparent that entering into this initial phase of lending will inevitably lead to additional financing for sub-projects, which are already in various stages of preparation.

2. Technical Assistance

a. Technical Assistance for the DFC

The amended project will provide funding to continue the existing technical assistance services of the senior advisor (12 pm) past the current May, 1987, contract expiration date as well as adding an Agribusiness Lending Specialist to the staff (24 pm). The Agribusiness Specialist will assist in the development and operation of agribusiness lending activities (See Annex E for Summary Job Description). The services of the Loan Specialist presently on the staff will be extended (20 pm) from technical assistance funds remaining under the original project. The long-term advisors will be supplemented on a limited basis by short-term consultants who will provide technical expertise for specific sub-projects. Continued training activities will be directed to the DFC staff principally through on the job training provided by the technical assistance advisors. However, some short-term course work will be required, especially in the area of agribusiness lending. (See Financial Plan, Phase II Technical Assistance Budget). The DFC is now actively planning an off-site training program to enable the staff to better meet the job requirements. In order to assist the DFC in meeting its objectives, the project will be closely monitored by a USAID Project Officer. The Project Officer will provide management and planning support to the DFC, monitor the institution's activities through monthly reports, and conduct the necessary evaluation required for additional advances of lending funds.

It is important to recognize that during Phase I the shortage of Haitian managers with appropriate experience has forced the DFC to rely on expatriate staff and advisors for institutional development. Using technical assistance funds an executive search was conducted by a U.S. firm in 1985 in the U.S. and Canada to identify and recruit qualified

Haitians for managerial positions in the DFC. Unfortunately, this extensive effort identified but three candidates, of which only one accepted the offer of employment. These recruiting difficulties have required the technical assistance experts to be fully responsible for establishing the leadership and systems appropriate to the organization, with the expatriate senior advisor acting as General Manager. Their efforts are commendable in view of the difficulties inherent in managing a new type of institution in an environment which faces extreme economic problems.

Recruitment of Haitian management and staff is a priority objective being undertaken by the Board, management, and the Mission (See Section IV, B, Amended Institutional Analysis). The amended technical assistance budget anticipates that during the term of this project the expatriate General Manager will assume the role of senior advisor after being replaced by a qualified Haitian. In that position he will then concentrate on perfecting operating and credit systems, structuring and analyzing small business loans, optimizing asset-liability management, and providing advice to the General Manager and staff. Nevertheless, during the interim in order that the DFC may widen its scope of activities, continued strong leadership from technical experts is essential for the long-term success of the institution.

b. Technical Assistance for DFC Clients

It should be noted that for most Category I and II loans currently in the portfolio, the DFC was a major catalyst for project packaging. Clients consistently required assistance in developing business plans and properly incorporating and capitalizing the project for the intended purpose of the loan. Although this assistance has given the DFC a well-deserved reputation for collaboration and early decision-making in contrast to public sector financial institutions and in some cases commercial banks, it is time-consuming and operationally expensive. Keeping in mind its developmental mission, the DFC plans to work closely on a greater volume of smaller enterprises during the Phase II project. However, in the future the institution will also be able to increasingly draw upon the services of the AID-supported Management and Productivity Center (MPC) in order to maximize its staff time for project analysis and loan processing.

The MPC, which is scheduled to commence operations in mid-1986, will provide management training programs, management consulting services, and micro-business assistance to Haitian private sector businesses. It is expected that the DFC will closely interact with the MPC in order to assist its clients or prospective clients in receiving management training and/or management consulting, as necessary. Specifically, the provision of business consultation services for entrepreneurs starting or expanding industrial level businesses was identified as a critical need in the demand survey conducted for the MPC project. The MPC will directly address the need of Haitian entrepreneurs to obtain know-how and assistance in preparing start-up and expansion plans, and packaging these for purposes of presentation to investors and financial institutions. These services will obviously be of great benefit to the DFC in meeting its objectives for portfolio expansion.

3. Promotion Activities

The DFC's Board and management recognize that a carefully planned and well-targeted promotional campaign is a key component in achieving their goals. The management is strengthening its client call program through a closer screening of the market and the assignment of specific client calling goals to each officer. The purpose of this promotion is not only to generate new business, but to understand client needs as a basis for new product development. It should be stressed that in the case of most of the Category I and II loans currently in the portfolio, the DFC was a major catalyst for packaging the project, and assisting the client draw up an organization chart, develop a business plan and properly incorporate and capitalize the project for the intended purpose of the loan.

In most cases, Category I and II clients must be persuaded to consider term financing. Most entrepreneurs view their business on a day-by-day cash basis without proper forecasting or planning in order to identify their real long-term requirements. This is a time consuming and expensive sales process on the part of the DFC. It requires above average financial and inter-personal acumen, and the skills of its officers are being upgraded accordingly.

The DFC has revised its advertising to support the call program. Full or half page information ads appear regularly in newspapers and periodicals in Port-au-Prince and the provinces targeted at the business community. These advertisements explain the DFC's structure, as compared to other financial institutions, and are geared to encourage a reader response for more information. The management will also conduct information and discussion panels in Port-au-Prince and selected provincial ci'ies aimed at specific clientele. For example, the DFC General Manager made a presentation at the recent Agribusiness Workshop. Substantial panel and audience participation generated interest and enthusiasm and at the same time served as an important marketing tool for the DFC's services.

III. FINANCIAL PLAN

A. Uses of A.I.D. Funds

A.I.D. will provide $5.0 million in grant funds over a 28 month period through an amendment to the Grant Agreement to finance lending funds ($4.3 million) and technical assistance and training ($700,000). The DFC will contribute its existing $6.0 million net portfolio and $1.0 million in equity to the total project financial plan. In addition, the DFC will raise $500,000 in new equity and $500,000 in debt through public savings subordinated to A.I.D.'s reimbursable lending capital contribution. $1.8 million of project funding will be obligated in FY 86, $2.6 million in FY 87, and $600,000 in FY 88 utilizing Economic Support Fund resources.

B. Total Project Summary ($000)

	A.I.D.	DFC	TOTAL
Equity		1,500	1,500
Lending Capital	8,300	500	8,800
Technical Assistance	1,395		1,395
Training	235		235
Contingency	70		70
Total	10,000	2,000	12,000

C. Phase II Technical Assistance Budget ($000)

1. Technical Assistance

	Years 1	2	3	Total
A. Staff				
Senior Advisor		40	60	100
Agribusiness Loan Specialist	75	150	75	300
Short-Term Specialists (including Evaluation)	50	30	20	100
Sub-Total	125	220	155	500
B. Staff Support				
Services	30	10		40
Computer Equipment	20			20
Vehicle	---	20	---	20
Sub-Total	50	30		80

2. Training

	1	2	3	Total
Staff	10	15	20	45
Client Orientation	20	20	15	55
Sub-Total	30	35	35	100
3. Contingency				20
Total				700

IV. AMENDED PROJECT ANALYSES

A. Amended Financial Analysis

1. Evolution of the Market

The emergence of the DFC took place as a result of increased confidence in the Haitian private sector and the need for a private long-term financial institution to serve as a stimulus for the growth and development of the entrepreneurial base. As a result, the DFC is the only reliable direct provider of long-term financing to the private sector, and it is the only financial institution in Haiti with the capability of working thoroughly with each client in producing realistic cash flow projections and a strategy for the longer-term. However, the DFC's potential market is affected by a number of constraints including:

- A lack of viable projects because of inadequate planning on the part of the entrepreneur with a corresponding paucity of financial and technical information.
- A lack of understanding for the need of long-term credit in project development or expansion.
- High administrative costs in processing small loans.
- A generally poor economic development environment.
- A cumbersome legal system which leads to lengthy delays in problem resolution and limits the value of most collateral.
- Counterproducive laws such as high protective tariffs, which are disincentives to innovation and investment.

As already mentioned, the Mission is addressing the disincentives to investment by providing technical assistance to the Permanent Mixed Committee for Investment Promotion, and this public/private sector policy reform Committee is making progress in modifying or eliminating a number of the most severe constraints to private sector expansion. Nevertheless, various constraints will continue to hamper the DFC's marketing efforts, and the development of its evolving target market will require a great deal of creativity, motivation, and hard work on the DFC's part.

2. Present Financial Status

Although the DFC is operating in a difficult economic environment, its financial condition over the initial phase of operations has been characterized by consistent improvement.

Statement of Income and Expenses ($000)

	1984	1985
Income	131	460
Expenses	248	437
Net Income (Loss)	(117)	23

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

The DFC has addressed each of these factors successfully during its initial operating period. Despite the already discussed overestimated quantity and quality of available projects coupled with the unanticipated high costs of packaging and analyzing the growing portfolio, the institution was able to reach the breakeven point at the end of its second full year of operations with a small net profit of $23,000. Although the DFC had to confront severe limitations due to poor economic conditions, its financial results to date are commendable considering the relatively short life of the institution and the limited market for its services at the outset of operations.

The DFC, from the point of view of operating costs, managed to have an adequate staff to meet the needs of its clients and to carry out the administrative tasks efficiently and effectively. By illustrating to clients the benefits of long-term financing, the institution has been able to expand its operations in a relatively short time.

Interest rates charged by the DFC have been competitive for larger clients compared to short-term loans from commercial banks. For smaller clients rates have been lower than those forecasted in the Project Paper (14.5% vs. 16.5%) due to the difficulty in encouraging small entrepreneurs to make investments under poor economic conditions. Commissions (1.5%) appear to be acceptable. The DFC received a clean audit for the year ending September 30, 1984, and, overall, the business community perceives the institution's financial performance as very satisfactory, considering its developmental purpose.

3. Financial Projection Methodology

The first and foremost objective in the DFC strategy has been to establish a viable financial institution. Viability, in the view of management and the Board, consists of profitability, financial soundness, a portfolio of loans that stands a very good chance of being repaid in full, a capable staff, and consequent operational independence. To management, viability also implies the ability to obtain additional debt and equity capital from existing and new sources.

The DFC has now established a strong base for future operations. During the coming three year period, the institution will endeavor to spread its project risks equally among its three project categories. It is also expected that terms will generally be longer on average than the existing four year project loan average. As a result of this commitment assiduous searching for sound new projects, rigorous loan structuring, well-disciplined loan decision-making, and strict attention to operating expenditures will be required.

The DFC must also be able to earn from its smaller than originally projected loan portfolio and from its liquid investment. It will be necessary to earn income in sufficient amounts to be financially viable, to attract additional share capital, and to pay a reasonable dividend. Consequently, the methodology used to prepare the financial projections is based on meeting these financial objectives while accomplishing a more development-oriented portfolio strategy.

4. Base Case

A thorough conventional financial analysis of the DFC is not practical at this point in time due to a lack of comparative operating periods as well as the institution's stable liability base. However, actual FY 1984 and 1985 income statements and the base case projections used for Phase II can be compared to give an indication of expected performance. Basic assumptions used in the projections are as follows (see Annex F, Financial Tables, for detailed Base Case projections):

(a) Loan commitments of $2,500,000 in each of the years with an average maturity of five years.

(b) An average interest rate of 14.5% per annum and a 1.5% front end commission.

(c) A bad debt rate of 7% for Category I loans, 5% for Category II loan, and 2% for Category III loans, and the general reserve (equity account) will be increased from 1.55% to 2.0% of the portfolio.

(d) Principal reflows from A.I.D. funded loans (less local currency costs required for new sub-project lending) are placed in a time deposit yielding 9%.

(e) An additional $500,000 in equity and $500,000 in subordinated notes as quasi-capital.

(f) FDI discount facility of approximately $200,000 per year.

(g) A dividend payment of $50,000 in 1987.

(h) An A.I.D. loan capital contribution of $4.3 million.

Table I
Income Statement ($000)

	Actual		Base Case Projections		
Income	1984	1985	1986	1987	1988
Interest	19	252	641	848	975
Commissions	13	114	38	39	38
Other Income	99	94	139	210	286
Total Income	131	460	818	1,097	1,299
Expenses					
Interest	(20)	(102)	(283)	(345)	(401)
Bad Debts	-	-	(114)	(114)	(118)
General Reserves	(3)	(52)	(50)	(23)	(11)
Administrative	(225)	(283)	(357)	(430)	(500)
Total Expenses	248	437	804	912	1,030
Net Income (Loss):	(117)	23	14	185	269
Dividends				50	

Table II
Balance Sheet ($000)

	Actual		Base Case Projections		
	1984	1985	1986	1987	1988
Total Assets	1,366	5,369	8,238	10,906	13,496
Total Liabilities	521	4,368	6,672	9,182	11,492
Capital	918	1,000	1,500	1,500	1,500
Reserves & Retained Earnings	(73)	1	66	224	504

5. Analysis of Base Case Program

a. Income: Given the conservative base case estimate, the DFC's net income will decline approximately 40% in 1986. This will be due to an anticipated phasing out of foreign exchange related commissions because of Central Bank restrictions, a 177% increase in interest expense from additional A.I.D. funding and the interest paid on local subordinated notes, a conservative provision for first year loan losses, and additional operational expenses caused by an increase in credit and portfolio administration personnel. However, net income sharply rises from a net profit of $14,000 in 1986 to a net profit of $185,000 in 1987 based on the stabilization of expenses and a 31% increase in loan revenues. Other revenues also rise 51%. The DFC will generate this additional income by placing up to $4 million in principal reflows from A.I.D.-funded loans and its cash equity into a time deposit yielding 9% p.a. The purpose of this deposit is to give the DFC additional cash flow to cover the risks of diversification into Category I and II loans, and to mobilize additional local capital based on attractive earnings projections and a possibility of a reasonable dividend.

b. Loan Losses: The DFC's management has kept the general reserve for loan loss at approximately 2.0% of the loan portfolio, which has been adequate since there have been no losses and no outstanding delinquencies to date. Beginning in 1986 a bad debt reserve will also be established to reflect the change in the portfolio risk mix. A decision will be made at the end of each year whether to increase, lower, or maintain the bad debt reserve at its level. All loans will continue to be backed by required collateral or rigidly analyzed cash flow projections in order to minimize losses.

c. Dividends: The DFC projects a small dividend of $50,000 in 1987. The declaration of a dividend is essential for maintaining the current shareholder base and the attraction of additional investors. Nevertheless, a covenant is included in the amendment to the Grant Agreement which limits dividends to a realistic level, thereby protecting the future development of the institution.

d. Long-Term Debt: A.I.D. is the source of approximately 70% of the DFC's lending funds during the 1984 - 1988 period. As the DFC is still at a nascent state of development, A.I.D. funds are required to continue the development of a solid funding base and to inspire continued confidence from the marketplace and existing as well as potential investors. Other sources of long term debt include the FDI, some interbank funding, and possibly sources of international funds such as the Inter-American Development Bank. In addition, the DFC plans to issue $500,000 in five year subordinated notes. These projections represent a sound debt structure, which will allow the DFC a net interest spread sufficient to carry out its portfolio diversification strategy.

e. Trust Fund: As was established with Phase I loan funds, the DFC will repay the A.I.D. capital contribution under the amended project ($4.3 million) into the special trust fund over a 20 year period with a ten year grace period and at an annual interest charge of 5%. This mechanism will continue to marshal resources for providing direct support for other private sector activities as agreed to by A.I.D.

6. Sensitivity Analyses

The sensitivity analyses listed below are intended to summarize the effects of changes in one or more variables that were determined through the base case analysis to be critical to the success of the DFC, and they illustrate the impact of various policy options. The projections in Annex F are an integral part of this discussion and are designed to provide easily understood bottom line operating results of each case. For this project three key sensitivity analyses were selected which demonstrate critical scenarios:

a. A 30% decline in annual loan disbursement projections.

b. Government of Haiti administers a ceiling on lending rates with a resulting drop in the DFC lending rate from 14.5% to 12.5%.

c. Bad debt rates are higher than expected with write-offs of 10% on Category I loans, 6% on Category II, 3% on Category III loan.

7. Conclusion

The loss in revenue under each of these scenarios assures an inadequate return on investment for future DFC operating years compared to those projections in the base case. If, for example, the DFC were forced to lower its rates by GOH administrative decree, it would narrow its lending spread to the point where its return on investment would be below its cost of funds. It should also be emphasized that if the DFC is unable to replace A.I.D. financing in 1988 with similar concessionary funds, it will hinder the institution's ability to maintain its development portfolio without jeopardizing its long-term viability. In order to meet this constraint, the DFC could take the option of raising its rates, reducing its staff, and concentrating on lower-risk loans. The consequences of such moves may ensure the DFC's survival, but would undermine the project's goals.

With this requirement in mind, discussions have already been initiated with the Interamerican Development Bank concerning a possible funding package under concessionary terms. Alternatively, a third tranche of A.I.D. funds should be provided in order to assure the institution's continued growth to the level of self-sustainability. At that point, the DFC would be in a position to obtain additional loan capital internationally from, for example, the IDB's Interamerican Investment Corporation, which is scheduled to begin operations in 1986. This institution, based on the International Finance Corporation model, will provide equity and loan funding for private sector projects at non-concessionary rates (presently envisioned at 9 1/2 - 10%), and a successfully operating DFC would be an ideal prospective client. Thus, in implementing the amended loan and technical assistance program at the DFC, we find no reason to deviate from the base case. That strategy offers the DFC the opportunity to meet its objectives within the medium-term, which will set the course for future expanded operations.

B. Amended Institutional Analysis

1. Organizational Management

The DFC Board and management have succeeded in establishing the organization on a sound basis with a solid portfolio, however, the institution has not fully achieved its goals of portfolio diversification and the recruitment of a full management, loan and support staff. Due to the lack of local managers with appropriate experience and skills, the current management system relies on expatriate advisors. Nevertheless, the complete success of the project will depend upon Board and management capability to recruit and train high caliber Haitian managers and staff.

The DFC's present organization chart is essentially the same as that proposed in the original Project Paper. The most significant difference was that the senior technical advisor was also acting General Manager during the life of the current project because of the already cited paucity of available managerial talent.

a. Board of Directors

The DFC's strong leadership is due in large measure to its active Board of Directors, who represent a wide cross section of the business community and the 142 shareholders. The Board has had a strong sense of commitment and participation during the vital period of organizational formation and initial operations. The Board and its committees (Executive, Ethics, and Credit) have been effective in establishing policy, expediting loan approvals, and maintaining a close working relationship with the acting General Manager and the senior staff. The Board also recognizes that its future participation will be essential in recruiting a Haitian General Manager and other key personnel, raising additional capital, and assisting in the implementation of the loan diversification portfolio strategy.

b. General Manager

Although combining the positions of General Manager and senior advisor was not envisioned in the original project, the DFC has been fortunate in having in both roles an expatriate banking executive with substantial technical, administrative, and operational experience. He has also demonstrated strong conceptual and promotional abilities, which have given the DFC the image of a serious financial institution and have assisted the Board in focusing on the institution's objectives and goals.

A top priority during the first year of the Phase II project will be to identify a Haitian General Manager either through the internal promotion of a staff member or outside recruitment. The present acting General Manager would then be able to provide strong advisory support. However, the Board must use the utmost care in choosing a new General Manager, who would be responsible for successfully implementing operations and strategies for years to come.

c. Departmental Organization

Loan Department:

This department is responsible for credit evaluation, negotiation, documentation, approval, disbursements, monitoring, and review. Its procedures were evaluated as being well-conceived and well-documented. Additionally, the Board of Directors Credit Committee oversees the entire approval system on a monthly basis, and the Committee consists of people who provide valuable guidance through a broad knowledge of the business community.

The monitoring process of signed loans is just beginning, and the system has not been fully tested. This area will receive a great deal of attention since along with faulty analysis, lack of monitoring is one of the two principal causes of loan problems. The DFC has set up a schedule for designated officers to formally review each loan, and a rating system is being designed to cover major concerns such as management performance, total availability of funds for the project from all sources, job creation, foreign exchange earnings and market viability. Also, as part of monitoring and strategic planning exercises, the DFC will systematically review its pricing strategy and formulate its financial projections.

Operations Department:

This department is responsible for accounting, collections, information systems, support services, and personnel. The recent evaluation established that the DFC's administrative operations are appropriate and that the department maintains a satisfactory data base. The DFC's management will continue the development of the management information system, with the automation of an effective loan maintenance and reporting system being particularly important. This is because repayment rates constitute the only true method of monitoring the quality of the loan portfolio on a regular basis.

In FY 1986, the DFC also plans to establish a self-supporting service bureau, which will organize and automate financial data for clients without strong accounting systems. This service will augment the DFC's development activities in providing client support services, while at the same time establishing an ongoing database for the Loan Department's loan monitoring system.

2. Conclusion

The Board and management have effectively established an institutionally sound organization appropriate for the initial operating period. However, the DFC faces a critical constraint in its future development due to the serious shortage of qualified local managerial and credit personnel. Also, past recruiting efforts have verified that Haitian expatriates are reluctant to leave well-established positions abroad. In order to maintain its high credit standards and performance, the DFC must continue its search for experienced Haitian personnel with financially-oriented engineering and agro industrial backgrounds. A plan and timetable for management and staff recruitment will be a Condition Precedent to Initial Disbursement of Funds for Sub-Project Lending. Alleviating this constraint through aggressive recruiting and sound training should allow the DFC to significantly move towards achieving its development goals during Phase II operations.

C. Amended Economic Analysis

1. DFC Impact on Investments

Based on the DFC projections for gross loan volume given in Annex G, the following table was prepared. Loan volume beyond 1990, which is necessary for analysis over an assumed ten year life of project but absent from Annex F, was conservatively projected. An analysis of loans already granted showed that DFC loans averaged approximately 25 percent of the total investments, with loans from other sources and owner's equity comprising the remaining 75 percent. Therefore, Gross Investment Attributable to the DFC was derived by multiplying the DFC projections by 4.0. Conversions from current dollars to 1985 constant dollars assumed an inflation rate of 10 percent.

Year	Projected Gross Loan Volume ($000's)	Projected Gross Loan Volume (1985 $000's)	Gross Investment Attributed to DFC (1985 $000's) (4.0 multiplier)
1984	457	415	1662
1985	3570	3570	14280

.../...

.../...

1986	5272	4793	19171
1987	6442	5324	21296
1988	7012	5268	21073
1989	7436	5079	20316
1990	7490	4651	18603
1991	7500	4234	16934
1992	7500	3849	15395
1993	7500	3499	13995
			162724

2. Cost Benefit Analysis

The DFC's performance to date indicates an expected average return on equity of 22 percent. The existing portfolio contains projects with equity providing an average of 50 percent of the investment, DFC loans providing 25 percent at 14.8 percent interest, and other loan sources providing 25 percent at approximately 18 percent interest. The expected financial return on invested capital is the weighted average of these, or 19.2 percent, minus the estimated rate of inflation, 10 percent, thus yielding a figure of 9.2 percent. As in the original project paper, an estimated indirect tax rate of 19.7 percent of gross capital income was assumed. This yields an adjustment of 1.8 percent to be added to the financial return on capital to obtain the economic rate of return on capital of 11.0 percent. As in the original project paper, depreciation was estimated as 5 percent and wage benefits as 4 percent. These figures yield a gross return to capital of 20.0 percent.

As shown in Annex G, these figures result in a positive net present value of over $13 million when discounted with an opportunity cost of capital of 10 percent. In other words, $13 million in benefits will be generated over the life of the project after all economic costs are covered, including the opportunity cost of capital. The internal rate of return is estimated to be 12.7 percent. This implies that the Project Paper Amendment increase in loan funds and technical assistance is a sound economic investment.

V. PROJECT IMPLEMENTATION

A. Project Management

1. Role of USAID/Haiti

USAID/Haiti's Office for Private Enterprise Development (OPED), with the assistance of the Project Committee, will have primary responsibility for managing the project. The USAID/Haiti Project Officer will be assigned from OPED and will work closely with the DFC Board of Directors, the DFC staff, representatives of other participating agencies, and consultants to ensure that the provisions of the Project Agreement Amendment are met and that A.I.D.-financed activities function efficiently and effectively.

2. Role of the DFC

The General Manager, working in conjunction with the DFC Board, will have overall responsibility for project implementation. There are two key managers reporting to the General Manager, the Loan Department Director and the Operations Department. This management team, assisted by technical experts, will be responsible for the day-to-day operations of the DFC.

B. Implementation Schedule

	Date
1. A.I.D. review/approval	December, 1985
2. Sign Grant Agreement Amendment	December, 1985
3. Conditions Precedent to Initial Disbursement of Funds for Sub-Project Lending met.	January, 1986
4. Conditions Precedent to Disbursement of Funds for Technical Assistance met.	March, 1986
5. Arrival of Agribusiness Lending Specialist	March, 1986
6. Conditions Precedent for Disbursement of Funds for Sub-Project Lending in Excess of $1.0 million met.	June, 1986

7. Selection of General Manager — December, 1986

8. Project Evaluation — December, 1987

9. PACD — May 31, 1988

C. Procurement Procedures

The DFC is an intermediate credit institution and its procurement policies will be in accordance with Handbook 1, Supplement B, Chapter 19. A source and origin waiver in the amount of $1.0 million was approved for the original project, and it is expected that such a waiver in a similar amount will be requested for the amended project. Otherwise, the source and origin of U.S. dollar procurement will be in those countries included in Code 941 of the A.I.D. Geographic Code Book and Haiti.

D. Evaluation Plan

An in-depth project evaluation will be conducted by independent contractors. It is scheduled after two years of project implementation (December, 1987), at which time the DFC's progress towards implementation targets will be scrutinized. A covenant of the Grant Agreement requires the DFC to finance an annual audit from its own resources.

VI. CONDITIONS AND NEGOTIATING STATUS

A. Conditions and Covenants

The following conditions and covenants will be included in the Amendment to the Grant Agreement:

1. Conditions Precedent to Initial Disbursement of Funds for Sub-Project Lending

Evidence acceptable to A.I.D. that:

a. The Investor Market Survey has been completed, and the promotional program has commenced to increase equity participation in the DFC from a wide-based group of investors.

b. A professional public relations program advertising the DFC's services has commenced.

c. A plan and timetable for management and staff recruitment is being implemented.

2. Condition Precedent to Disbursement of Funds for Short-Term Technical Assistance

Evidence of the identification of additional technical assistance satisfactory to A.I.D. to provide the DFC with the Year 1 short-term specialists, staff support, and training listed in the project paper amendment's technical assistance budget.

3. Condition Precedent to Disbursement of Funds for Long-Term Technical Assistance

Evidence of the selection of an Agribusiness Lending Specialist satisfactory to A.I.D.

4. Conditions Precedent to Disbursement of Funds for Sub-Project Lending in Excess of $1.5 million

a. Evidence of paid-in capital of not less than the gourde equivalent of five hundred thousand United States dollars ($500,000).

b. A statement, satisfactory to A.I.D., setting forth the lending criteria and procedures the DFC is following in reviewing, analyzing, and administering agribusiness loans.

c. A detailed statement, satisfactory to A.I.D., describing the call program and other plans being carried out by the DFC to identify prospective Category I and II clients.

5. Condition Precedent to Disbursement of Funds for Sub-Project Lending in Excess of $3.0 Million

Evidence of the selection of a General Manager satisfactory to A.I.D.

6. <u>Other Special Covenants</u>

All covenants included in the Grant Agreement remain in effect except for the following modification and addition. Grantee agrees that, unless A.I.D. otherwise agrees in writing, it will:

(a) Not declare or pay cash dividends or make any other distribution of assets until such time as the DFC has realized two consecutive years of net profit. Additionally, a minimum of $100,000 in accumulated net profit is required before dividends can be declared, and dividends will be limited 25% of accumulated net profit up to $150,000 and 35% of annual net profit over $150,000. Furthermore, annual dividend distribution will not exceed 20% of stock investment.

(j) Limit the maximum total amount of outstanding loans and guarantees to any sub-borrower, or groups of borrowers with similar ownership,to no more than 15% of the Grantee's equity base or $225,000, whichever is greater at the time the sub-loan or guarantee is made.

(p) Utilize, to the maximum extent possible, sub-loan gourde repayments from Phase I project financing for the local cost component of sub-projects financed under the Phase II project amendment.

(q) Continue to carry out the DFC's economic development mandate as described in the amended project description during the repayment period of A.I.D. loan capital funds.

B. <u>Negotiating Status</u>

The design of the proposed project has been developed in close consultation with the DFC, and the DFC Board and staff are in full agreement concerning all planned activities.

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Project Title & Number: Development Finance Corporation

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Goal:			
To stimulate and support industrial growth in both the medium sized manufacturing and agro-industrial sectors in Haiti.	1)Rising industrial employment, per capita income and overall production in Haiti. 2)Increased private investment directly related to DFC activities.	1)IBRD, IBD and AID economic Reports. 2)GOH reports. 3)Project evaluations. 4)Project reports.	1.GOH Economic Policies; growth in GDP. 2.GOH Policy encouraging industrial investment is continued. 3.Existing export demand and ability of Haitian industry to enter foreign markets. 4.Internal growth in demand for industrial and agricultural products. 5.Agribusiness expansion
Project Purpose:	EOPS:		
To strengthen and expand the DFC's ability to provide medium and long-term credit and support services to investors for	1.A self-substaining financial institution which meets the credit needs for new or expanded industrial projects.	1.Project reports, Annual independant audit, Periodic project evaluations.	1.(a)The DFC continues its tight administrative and portfolio management.

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
small & medium sized manufacturing and agribusiness projects in Haiti.	2.$7.6 MM loan portfolio consisting of 66 medium and long-term industrial and agro-industrial loans.	2.DFC loan portfolio reports.	(b)The DFC can successfully recruit a competent top Haitian management.
	3.Creation of new employment opportunities in PAP & provincial areas for skilled and unskilled workers.	3.DFC reports, Project reports, Periodic project evaluations.	(c)The DFC can continue to raise new capital and debt from the local market.
	4.Increase in the number of farmers selling produce to agribusiness.	4.DFC reports, Project reports, Periodic project evaluations.	
	5.Increase in foreign exchange earnings due to the financing new or expanded export business	5.Central bank reports, Client verification reports.	
	6.Savings mobilization programs established to provide supplementary funds to the DFC.	DFC reports, Project reports, Project evaluations.	
Outputs:			
1.Diversification of the loan portfolio into more risk oriented categories	1.a)Outstanding loan portfolio at end of each year ($000) Yr.1: 5,272 — Yr.2: 6,442 — Yr.3: 7,012	1.a)DFC financial and loan portfolio reports.	1.The DFC will successfully penetrate higher risk markets and diversify its portfolio.
	1.b)Loan Categories as % of total portfolio Yr.1 / Yr.2 / Yr.2 1/2 Cat.1: 19% / 25% / 29% Cat.2: 31% / 32% / 34% Cat.3: 50% / 43% / 37%	1.b)DFC loan portfolio reports.	

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
	1.c) Creation of approximately 2,700 new jobs as a result of project financing.	Project evaluations, DFC portfolio reports.	
2. Sub-project identification, promotion and development.	2. Number of smaller industrial and agro-industrial projects identified and financed.	2. DFC reports and project records. 3. DFC loan portfolio reports, Project reports and evaluation reports.	2. DFC development financing will stimulate investor interest in new project; and appropriate technical assistance will be available on a timely basis.
3. DFC operational and managerial systems strengthened.	3a.) Recruitment of Haitian managing director and agri-business staff. b.) Credit and project monitoring systems functioning efficiently -status of project closely monitored -interest and principal payments received on time -low level of delinquent payments received on time -low level of delinquent payments		3. Annual independent audit, Evaluation reports.

Inputs:

1. Private sector equity capital contribution.	1. $0.500 million	1) Records of the DFC and annual independent audit.	1. Achievement of stock subscription targets.
2. Subordinated Notes.	2. $0.500 million	2) Records of the DFC	2. Achievement of fund-raising targets.
3. AID Technical Assistance grant.	3. $0.700 million	3) Records of AID	3. FY grant funds available from USAID/Haiti
4. AID grant capital for Loan Program.	4. $4.300 million	4) Records of AID	4. FY grant funds available from USAID/Haiti.

SOFIHDES

SOCIETE FINANCIERE HAITIENNE DE DEVELOPPEMENT S.A.

SOCIETE ANONYME HAITIENNE AU CAPITAL DE CINQ MILLIONS DE GOURDES

Port-au-Prince, November 1, 1985

Mr. Jerome French
Mission Director
USAID
Blvd. Harry Truman

Dear Mr. French,

On September 4, 1982, the core group of the would be SOFIHDES requested from USAID a financial package amounting to Five Million Dollars ($5,000,000.00) (Four Million disbursable grant to finance subloans and One Million in technical assistance funds). The purpose of that financing was to match a One Million Dollars ($1,000,000.00) capital contribution from the private sector in order to establish the first private Development Finance Company in this country.

Today, almost exactly three years later, we are pleased to submit to you another request for financing, this one covering Four Million Three Hundred Thousand Dollars ($4,300,000.00) in loanable funds and Seven Hundred Thousand Dollars ($700,000.00) for technical assistance, for a total of Five Million Dollars ($5,000,000.00). Over the past two years of operations at SOFIHDES and with your valuable assistance, we have established an institution which is progressively moving towards the achievement of its goals. Our strategy in the initial years has been to establish a strong, professional and well-regarded institution that would become financially viable as soon as possible, and develop the human and financial ressources necessary to better control the further opening of its credit portfolio towards various categories of risks.

As of the end of September, 1985, after twenty one months of operations, SOFIHDES created approximately twenty two hundred jobs and generated/saved approximately Eight Million Dollars ($8,000,000.00) in annual exchange. Thirty two loans have been committed and/or disbursed in the process, and the initial Four Million Dollars ($4,000,000.00) loan from AID to SOFIHDES was completely committed as of that date. Sixty percent of those thirty two loans (38% of the volume) have been made to small or medium sized clients (of which ten are new businesses/start-ups).

As we have now established a sound financial base (see attached PMM Financial Statements) we plan to engage in different types of activities, while consolidating our current business base. Our quite ambitious program over the next three to four years will be composed of the following steps:

.../...

BOULEVARD HARRY TRUMAN • BOITE POSTALE [redacted], PORT-AU-PRINCE, HAITI • TELEPHONES: 2-9298/2-8628
1399

- More significant involvement into Agro-Industries and in certain specific cases, agriculture. To this effect, we will use a substantial portion of technical assistance funds to hire an expert in Agro-lending. This will complement the efforts currently being pursued by your office in the field of agriculture.

- More significant involvement outside the Port-au-Prince area: Over the coming two years, we intend to hold a series of seminars in key Haitian cities (excluding Port-au-Prince), and make loans in a limited number of those cities

- Another item we have on the agenda is the creation of a Service Bureau activity, which will be offered to most of our small clients. This activity, besides having substantial development content, will significantly help us consolidate and further develop our current business base (mostly local and export industries).

- Last but not least, we will continue to place special attention on the issue of recruiting and training of local staff.

We hope that you will look favorably on our request for another Five Million Dollars ($5,000,000.00) and we look forward to continuing the valuable development work that our respective institutions commenced three years ago.

With many thanks indeed,

Andre S. Apaid
Andre S. Apaid
President
ASA:rsc
Encl:

AGRIBUSINESS FINANCING DEMAND CASES

Case # 1

FLOURICULTURE PROJECT

A local company wants to produce and export massangeana tips and related plants, which are very lucrative ornamental plants with a large market in the U.S. The company estimates the value of the first phase of the project to be $1.2 million, of which the company and a group of investors will invest $850,000. Approximately $350,000 in financing will be required. The second and third phase would require $300,000 and $200,000 respectively in financing.

Total Investment Required:	
Cost of land:	$ 150,000
Drilling the well	20,000
Construction of building	400,000
Construction of shade towers	630,000
Total:	$1,200,000

Approximately 30% of the phase one is already invested:

First year	Anticipated revenue:	$ 210,000	Expenses:	$230,000
Second year	" "	608,000	"	340,000
Third year	" "	803,000	"	446,000
Fourth year	" "	$ 1,152,000	"	$ 550,000

Case # 2

SEAFOOD PROCESSING PROJECT

Haiti's 900 mile coastline produces only about 5000 tons of fish per annum. The country exports between 400 and 1000 tons of shellfish and imports about 10,000 to 14,000 tons of salted and dried fish per annum. The monetary value of exports and imports is approximately the same.

Brokering discussions are presently taking place between a Canadian and a Haitian group to joint venture a fish, seafood processing facility.A New Brunswick-based fishing company will supply three vessels during their off season (November - May), to fish, process, package and refrigerate seafood for export. An existing facility will be used for freezing. The joint venture will then establish a salt-processing facility in Haiti to produce salted fish for the local market.

It is anticipated that with increased demand the joint venture will require a substantial increase in supplies from local fishermen. Benefits will not only include additional markets for the fishermen who are presently underemployed, but also create employment from the processing plant. The group also plans to make available to the local market at affordable prices fish caught but not suitable for export or salting. Another objective of the project is to replace presently imported salted fish, which will result in substantial savings in foreign exchange. Consequently, as fish becomes a more accessible and affordable commodity additional demand will be created for other fishermen.

The cost of this project is expected to amount to $500,000 - $600,000 of which the consortium would need to finance about $200,000.

Case # 3

MANGO PROCESSING -- PROJECT

Haiti is the third largest producer of mangos in the Americas. (FAO, 1980). Domestic production was estimated in 1980 at 326,000 tons, and in 1983 Haiti exported over 6,000 tons. The U.S. fresh mango export market is unfortunately closed to Haitian exports (approximately $5.0 million in 1984) since the Environmental Protection Agency, on September 1, 1985, banned ethyl dibromide, the fumigant used to treat the fruit. The remaining choice for exporters is either to look for other geographical markets (Canada, Europe, Japan), and/or look at full or partial processing. The most common and best established semi-processed market is for chutney. The United Kingdom and India presently require additional import supplies of Indian soft (Francis, Muscat) and Indian hard (Carrots, Poirier) mangos, and this market is relatively easy to penetrate.

Through OPED's brokering activities a U.K. firm interested in purchasing semi-processed mangos has been identifed and matched with an ideal Haitian partner, who was exporting fresh mangos until last September and has the basic facility and experience. This project would become a satellite-oriented project, which would provide much needed employment to landless peasants. The company will require financing of approximately $200,000 of the total $500,000 necessary to prepare the plant. This would include:

Plastic drums:	Approximately 3,000 fifty gallon plastic drums to cure the sliced mango for four to six weeks.
Curing Shed:	A specially constructed open shed in which the curing process would take place. Concrete and stainless steel would be used since the brime solution contains a salt concentrate ten times stronger than sea water.
Working Shed:	Trucks, fork lifts, scales, and other necessary equipment.

Haitian Small and Medium Agribusinesses

A. Local Market Production:

1. Tomato Paste	FAMOSA
2. Processed Fruits	CONASA
3. Fruit juices	JUNA
4. Beverages	Brasserie Nationale, Sejourne, Borday, Larco Brass. de la Couronne, Kola Rex, Canada Dry, Spur Seven Up
5. Bakery	SHABISCO, Epi d'Or, La Caridad, Boul. St. Marc
6. Spaghetti	Arlequin Food Products
7. Confiterie	Alta, Surette Toli
8. Meat products	HAMPCO, Ranch Pakers, FAMEPAK
9. Poultry	COOPEP, Jean Desquiron, Prinsa
10. Cooking Oil	Husman
11. Margarine	Marianne, Rosita, Usman, Huileries Haitiennes Les Industries Nationales
12. Milk	LAINA
13. Yougert	MADHOU
14. Butter, Cheese	BNDAI
15. Cocoa	Hamascosa, S.A.
16. Seafood	Arc-en-ciel Fruits de Mer Grande Pecherie de Belle-Anse
17. Flowers	[16 florists] Tabou Fleurs, Art de Paris, Missou Fleurs, Floralys, Mebel, Le Patio, Florileges and others

B. Export Market Production:

1. Fresh Fruits	Mangoes - ASDEM, J&B Exports, EMT Fruit Export, Trofex Co., Fruit Center
2. Limes	Haiti Citrus
3. Coffee	REBO, Bennet Export, Wiener, Madsen
4. Rum	Barbancourt
5. Flowers	Orchids, Assali Ornamentals, Ornamentals of Haiti
6. Seafood	Sea High Fish Export (lobster tails, snails)
7. Essential Oils	LAB, Agri Supply & Co., ENTRASA, Essences Aromatiques (vetiver amaryllis, sandal wood, cedar oil)

SUMMARY JOB DESCRIPTION

AGRIBUSINESS LENDING SPECIALIST

The Agribusiness Lending Specialist will assist in the development and operation of agribusiness sub-project loan activities as an integral component of the Credit Department. This specialist must possess extensive experience and an in-depth understanding of financial analysis for agricultural and agro-industrial projects, and analytical techniques for determining project feasibility, (e.g. economic analysis, technical evaluations, etc.). Academic and non-academic training will be required in the areas of project analysis since a major responsibility of the advisor will be to train appropriate DFC staff. Working experience (5-7 years) with investment or development banks in developing countries is desirable, but similar experience with commercial banks or international development institutions in LDCs is acceptable. Fluency in the French language is required at a level of S-3, R-3.

The specialist will be responsible for the following duties:

1. Assist the General Manager and Chief of the Credit Department in the organization of agribusiness lending activities, including the design and implementation of a methodology for the analysis, monitoring and evaluation of sub-projects.

2. Design project appraisal procedures for the identification, screening, and/or development of client proposals aimed at the selection of agribusiness projects eligible for DFC financing.

3. The identification and selection of short-term consultants as required for project analyses, in specific technical fields.

4. The development of specialized project monitoring procedures focused on the preparation of special reports concerning borrower performance, e.g. payment arrearages, technical and management problems, etc.

FINANCIAL TABLES

SOFIHDES LOANS PROJECTIONS OCT 85 base case

PROFIT & LOSS	1984	1985	1986	1987	1988	1989	1990
interest @ 14.5%	19	252	641	849	975	1047	1082
commissions @ 1.5%	13	114	38	38	38	38	38
LOANS REVENUES	32	366	679	887	1013	1085	1120
fdi fds csts @ 10%	3	10	15	30	45	50	50
aid fds csts @ 5%	15	88	212	264	307	343	367
other interest costs	2	4	55	50	48	34	21
loans write-offs	0	0	114	114	118	118	118
general reserve	3	52	50	23	11	8	1
LOANS COSTS	23	154	446	482	530	554	557
GROSS MARGIN/LOANS	9	212	232	405	483	531	562
equity td @ 9%	86	83	111	140	162	189	212
reflows td @ 9%	0	0	63	158	288	360	360
aid fds csts @ 5%	0	0	35	88	160	200	200
aid grant	13	11	0	0	0	0	0
OTHER REVENUES	99	94	139	210	290	349	372
staff	123	199	273	340	405	448	484
premises	24	26	30	32	35	37	39
others	78	58	54	58	60	63	66
OPERATING EXPENSES	225	283	357	430	500	548	589
PROFIT/(LOSS)	-117	23	14	185	273	332	345
DIVIDENDS	0	0	0	50	0	100	0
RETAINED EARNINGS	-117	23	14	135	273	232	345

BALANCE SHEET	1984	1985	1986	1987	1988	1989	1990
CASH	60	208	122	81	69	250	310
reflows td	0	300	1000	2400	4000	4000	4000
equity td	600	967	1500	1600	2000	2200	2500
TOTAL TD	600	1267	2500	4000	6000	6200	6500
PORTFOLIO	457	3575	5272	6442	7012	7436	7490
OTHERS ASSETS	134	201	220	250	270	300	320
FIXED ASSETS	115	118	124	137	150	165	182
TOTAL	1366	5369	8238	10910	13501	14351	14802
CURRENT LIABILITIES	34	253	60	70	80	90	95
fdi	52	105	200	400	500	500	500
other banks	30	30	30	30	30	30	30
aid	405	3980	5882	8182	10507	11232	11457
debentures	0	0	500	500	375	250	125
TOTAL LT DEBTS	487	4115	6612	9112	11412	12012	12112
capital	918	1000	1500	1500	1500	1500	1500
legal reserves	4	4	4	14	34	55	74
general reserve	3	55	105	129	140	149	150
retained earnings	-80	-58	-44	81	334	545	871
EQUITY	845	1001	1566	1724	2009	2249	2595
TOTAL	1366	5369	8238	10906	13501	14351	14802

59

INDICATEURS	1984	1985	1986	1987	1988	1989	1990
ROI	-8.5%	0.4%	0.2%	1.7%	2.0%	2.3%	2.3%
ROE	-13.8%	2.3%	0.9%	10.7%	13.6%	14.8%	13.3%
LEVERAGE,debent ajst	0.6	4.1	3.0	3.9	4.6	4.7	4.4

SOFIHDES LOANS PROJECTIONS date SEPT 85

LOANS/WRITE-OFF	1984	1985	1986	1987	1988	1989	1990
COMMITMENTS	1020	3914	2500	2500	2500	2500	2500
DISBURSEMENTS	457	3933	2192	2500	2500	2500	2500
WRITE-OFF	0	0	114	114	118	118	118
REFLOWS	0	820	377	1216	1813	1958	2328
OUTSTANDING	457	3570	5272	6442	7012	7436	7490
% OUTSTDNG CAT 1	31%	16%	19%	25%	29%	31%	33%
% OUTSTDNG CAT 2	36%	25%	31%	32%	34%	34%	33%
% OUTSTDNG CAT 3	32%	30%	33%	36%	37%	35%	34%
% OUTSTDNG CAT 4	0%	25%	17%	7%	0%	0%	0%
% OUTSTDNG CAT 5	0%	4%	0%	0%	0%	0%	0%
FUNDING SOURCES							
disbursements	457	3933	2192	2500	2500	2500	2500
cumul	457	4390	6582	9082	11582	14082	16582
fds from FDI	52	48	100	200	100	0	0
cumul	52	100	200	400	500	500	500
fds from reflows	0	0	0	0	200	1900	2400
cumul	0	0	0	0	200	2100	4500
fds debentures	0	300	200	0	-125	-125	-125
cumul	0	300	500	500	375	250	125
fds from AID	405	3585	1892	2300	2325	725	225
cumul	405	3990	5882	8182	10507	11232	11457
REFLOWS							
reflows/period	0	820	377	1216	1813	1958	2328
reflows/cumul	0	820	1197	2412	4225	6183	8510
term deposit	0	300	1100	2400	4000	4000	4000
balance	0	520	97	12	225	2183	4510
loan funding	0	0	0	0	200	2100	4500
difference	0	520	97	12	25	83	10

Write-off assumptions cat 1 7%
cat 2 5%
cat 3 2%

SOFIHDES LOANS PROJECTIONS OCT 85 write-off 10% 6% 3%

PROFIT & LOSS	1984	1985	1986	1987	1988	1989	1990
interest @ 14.5%	19	252	638	840	961	1029	1062
commissions @ 1.5%	13	114	38	38	38	38	38
LOANS REVENUES	32	366	676	878	999	1067	1099
fdi fds csts @ 10%	3	10	15	30	45	50	50
aid fds csts @ 5%	15	88	212	264	307	343	370
other interest costs	2	4	55	50	48	34	21
loans write-offs	0	0	155	155	160	160	160
general reserve	3	52	50	23	11	8	1
LOANS COSTS	23	154	486	522	571	596	602
GROSS MARGIN/LOANS	9	212	189	356	428	471	498
equity td @ 9%	86	83	111	140	153	171	194
reflows td @ 9%	0	0	63	158	288	360	360
aid fds csts @ 5%	0	0	35	88	160	200	200
aid grant	13	11	0	0	0	0	0
OTHER REVENUES	99	94	139	210	281	331	354
staff	123	199	273	340	405	448	484
premises	24	26	30	32	35	37	39
others	78	58	54	58	60	63	66
OPERATING EXPENSES	225	283	357	430	500	548	589
PROFIT/(LOSS)	-117	23	-29	136	209	254	262
DIVIDENDS	0	0	0	50	0	100	0
RETAINED EARNINGS	-117	23	-29	86	209	154	262

BALANCE SHEET	1984	1985	1986	1987	1988	1989	1990
CASH	60	208	119	65	223	349	436
reflows td	0	300	1000	2400	4000	4000	4000
equity td	600	967	1500	1600	1800	2000	2300
TOTAL TD	600	1267	2500	4000	5800	6000	6300
PORTFOLIO	457	3575	5231	6360	6898	7300	7344
OTHERS ASSETS	134	201	220	250	270	300	320
FIXED ASSETS	115	118	124	137	150	165	182
TOTAL	1366	5369	8194	10812	13341	14114	14582
CURRENT LIABILITIES	34	253	60	70	80	90	95
fdi	52	105	200	400	500	500	500
other banks	30	30	30	30	30	30	30
aid	405	3980	5882	8182	10507	11232	11557
debentures	0	0	500	500	375	250	125
TOTAL LT DEBTS	487	4115	6612	9112	11412	12012	12212
capital	918	1000	1500	1500	1500	1500	1500
legal reserves	4	4	4	14	34	55	74
general reserve	3	55	105	127	138	146	147
retained earnings	-80	-58	-87	-11	177	311	554
EQUITY	845	1001	1522	1630	1849	2012	2275
TOTAL	1366	5369	8194	10812	13341	14114	14582

INDICATEURS	1984	1985	1986	1987	1988	1989	1990
ROI	-8.5%	0.4%	-0.4%	1.3%	1.6%	1.8%	1.8%
ROE	-13.8%	2.3%	-1.9%	8.3%	11.3%	12.6%	11.5%
LEVERAGE,debent ajst	0.6	4.1	3.0	4.0	5.0	5.2	5.0

SOFIHDES LOANS PROJECTIONS date SEPT 85

LOANS/WRITE-OFF	1984	1985	1986	1987	1988	1989	1990
COMMITMENTS	1020	3914	2500	2500	2500	2500	2500
DISBURSEMENTS	457	3933	2192	2500	2500	2500	2500
WRITE-OFF	0	0	155	155	160	160	160
REFLOWS	0	820	377	1216	1802	1938	2297
OUTSTANDING	457	3570	5231	6360	6898	7300	7344
% OUTSTDNG CAT 1	31%	16%	19%	24%	29%	31%	32%
% OUTSTDNG CAT 2	36%	25%	31%	33%	34%	34%	34%
% OUTSTDNG CAT 3	32%	30%	33%	36%	37%	36%	34%
% OUTSTDNG CAT 4	0%	25%	17%	7%	0%	0%	0%
% OUTSTDNG CAT 5	0%	4%	0%	0%	0%	0%	0%
FUNDING SOURCES							
disbursements	457	3933	2192	2500	2500	2500	2500
cumul	457	4390	6582	9082	11582	14082	16582
fds from FDI	52	48	100	200	100	0	0
cumul	52	100	200	400	500	500	500
fds from reflows	0	0	0	0	200	1900	2300
cumul	0	0	0	0	200	2100	4400
fds debentures	0	300	200	0	-125	-125	-125
cumul	0	300	500	500	375	250	125
fds from AID	405	3585	1892	2300	2325	725	325
cumul	405	3990	5882	8182	10507	11232	11557
REFLOWS							
reflows/period	0	820	377	1216	1802	1938	2297
reflows/cumul	0	820	1197	2412	4214	6152	8448
term deposit	0	300	1100	2400	4000	4000	4000
balance	0	520	97	12	214	2152	4448
loan funding	0	0	0	0	200	2100	4400
difference	0	520	97	12	14	52	48

Write-off assumptions		
	cat 1	10%
	cat 2	6%
	cat 3	3%

55

SOFIHDES LOANS PROJECTIONS OCT 85 interest rate 12.5%

PROFIT & LOSS	1984	1985	1986	1987	1988	1989	1990
interest @ 12.5%	19	252	553	732	841	903	933
commissions @ 1.5%	13	114	38	38	38	38	38
LOANS REVENUES	32	366	590	770	878	940	970
fdi fds csts @ 10%	3	10	15	30	45	50	50
aid fds csts @ 5%	15	88	212	264	307	343	367
other interest costs	2	4	55	50	48	34	21
loans write-offs	0	0	114	114	118	118	118
general reserve	3	52	50	23	11	8	1
LOANS COSTS	23	154	446	482	530	554	557
GROSS MARGIN/LOANS	9	212	144	288	349	386	413
equity td @ 9%	86	83	107	126	135	144	153
reflows td @ 9%	0	0	63	158	288	360	360
aid fds csts @ 5%	0	0	35	88	160	200	200
aid grant	13	11	0	0	0	0	0
OTHER REVENUES	99	94	135	196	263	304	313
staff	123	199	273	340	405	448	484
premises	24	26	30	32	35	37	39
others	78	58	54	58	60	63	66
OPERATING EXPENSES	225	283	357	430	500	548	589
PROFIT/(LOSS)	-117	23	-79	54	112	142	137
DIVIDENDS	0	0	0	50	0	100	0
RETAINED EARNINGS	-117	23	-79	4	112	42	137

BALANCE SHEET	1984	1985	1986	1987	1988	1989	1990
CASH	60	208	129	53	83	275	228
reflows td	0	300	1000	2400	4000	4000	4000
equity td	600	967	1400	1400	1600	1600	1800
TOTAL TD	600	1267	2400	3800	5600	5600	5800
PORTFOLIO	457	3575	5272	6442	7012	7436	7490
OTHERS ASSETS	134	201	220	250	270	300	320
FIXED ASSETS	115	118	124	137	150	165	182
TOTAL	1366	5369	8145	10682	13115	13776	14020
CURRENT LIABILITIES	34	253	60	70	80	90	95
fdi	52	105	200	400	500	500	500
other banks	30	30	30	30	30	30	30
aid	405	3980	5882	8182	10507	11232	11457
debentures	0	0	500	500	375	250	125
TOTAL LT DEBTS	487	4115	6612	9112	11412	12012	12112
capital	918	1000	1500	1500	1500	1500	1500
legal reserves	4	4	4	14	34	55	74
general reserve	3	55	105	129	140	149	150
retained earnings	-80	-58	-137	-143	-51	-29	89
EQUITY	845	1001	1473	1500	1623	1674	1813
TOTAL	1366	5369	8145	10682	13115	13776	14020

INDICATEURS	1984	1985	1986	1987	1988	1989	1990
ROI	-8.5%	0.4%	-1.0%	0.5%	0.9%	1.0%	1.0%
ROE	-13.8%	2.3%	-5.3%	3.6%	6.9%	8.5%	7.6%
LEVERAGE,debent ajst	0.6	4.1	3.1	4.3	5.5	6.1	6.2

SOFIHDES LOANS PROJECTIONS date SEPT 85

LOANS/WRITE-OFF	1984	1985	1986	1987	1988	1989	1990
COMMITMENTS	1020	3914	2500	2500	2500	2500	2500
DISBURSEMENTS	457	3933	2192	2500	2500	2500	2500
WRITE-OFF	0	0	114	114	118	118	118
REFLOWS	0	820	377	1216	1813	1958	2328
OUTSTANDING	457	3570	5272	6442	7012	7436	7490
% OUTSTDNG CAT 1	31%	16%	19%	25%	29%	31%	33%
% OUTSTDNG CAT 2	36%	25%	31%	32%	34%	34%	33%
% OUTSTDNG CAT 3	32%	30%	33%	36%	37%	35%	34%
% OUTSTDNG CAT 4	0%	25%	17%	7%	0%	0%	0%
% OUTSTDNG CAT 5	0%	4%	0%	0%	0%	0%	0%
FUNDING SOURCES							
disbursements	457	3933	2192	2500	2500	2500	2500
cumul	457	4390	6582	9082	11582	14082	16582
fds from FDI	52	48	100	200	100	0	0
cumul	52	100	200	400	500	500	500
fds from reflows	0	0	0	0	200	1900	2400
cumul	0	0	0	0	200	2100	4500
fds debentures	0	300	200	0	-125	-125	-125
cumul	0	300	500	500	375	250	125
fds from AID	405	3585	1892	2300	2325	725	225
cumul	405	3990	5882	8182	10507	11232	11457
REFLOWS							
reflows/period	0	820	377	1216	1813	1958	2328
reflows/cumul	0	820	1197	2412	4225	6183	8510
term deposit	0	300	1100	2400	4000	4000	4000
balance	0	520	97	12	225	2183	4510
loan funding	0	0	0	0	200	2100	4500
difference	0	520	97	12	25	83	10

Write-off assumptions		
	cat 1	7%
	cat 2	5%
	cat 3	2%

SOFIHDES LOANS PROJECTIONS OCT 85 volume $1750m

PROFIT & LOSS	1984	1985	1986	1987	1988	1989	1990
interest @ 14.5%	19	252	608	731	766	773	769
commissions @ 1.5%	13	114	26	26	26	26	26
LOANS REVENUES	32	366	634	757	792	800	795
fdi fds csts @ 10%	3	10	15	30	45	50	50
aid fds csts @ 5%	15	88	199	221	231	242	251
other interest costs	2	4	55	50	48	34	21
loans write-offs	0	0	80	80	83	83	83
general reserve	3	52	41	9	1	1	0
LOANS COSTS	23	154	390	389	408	410	405
GROSS MARGIN/LOANS	9	212	243	367	385	389	391
equity td @ 9%	86	83	111	135	144	158	167
reflows td @ 9%	0	0	63	158	288	360	360
aid fds csts @ 5%	0	0	35	88	160	200	200
aid grant	13	11	0	0	0	0	0
OTHER REVENUES	99	94	139	205	272	318	327
staff	123	199	273	340	405	448	484
premises	24	26	30	32	35	37	39
others	78	58	54	58	60	63	66
OPERATING EXPENSES	225	283	357	430	500	548	589
PROFIT/(LOSS)	-117	23	25	142	157	159	128
DIVIDENDS	0	0	0	50	0	100	0
RETAINED EARNINGS	-117	23	25	92	157	59	128

BALANCE SHEET	1984	1985	1986	1987	1988	1989	1990
CASH	60	208	100	54	104	111	179
reflows td	0	300	1000	2400	4000	4000	4000
equity td	600	967	1500	1500	1700	1800	1900
TOTAL TD	600	1267	2500	3900	5700	5800	5900
PORTFOLIO	457	3575	4811	5265	5299	5367	5243
OTHERS ASSETS	134	201	220	250	270	300	320
FIXED ASSETS	115	118	124	137	150	165	182
TOTAL	1366	5369	7755	9606	11523	11743	11824
CURRENT LIABILITIES	34	253	60	70	80	90	95
fdi	52	105	200	400	500	500	500
other banks	30	30	30	30	30	30	30
aid	405	3980	5387	6937	8712	8987	9062
debentures	0	0	500	500	375	250	125
TOTAL LT DEBTS	487	4115	6117	7867	9617	9767	9717
capital	918	1000	1500	1500	1500	1500	1500
legal reserves	4	4	4	14	34	55	74
general reserve	3	55	96	105	106	107	105
retained earnings	-80	-58	-33	50	186	224	333
EQUITY	845	1001	1568	1669	1826	1886	2012
TOTAL	1366	5369	7745	9606	11523	11743	11824

INDICATEURS	1984	1985	1986	1987	1988	1989	1990
ROI	-8.5%	0.4%	0.3%	1.5%	1.4%	1.4%	1.1%
ROE	-13.8%	2.3%	1.6%	8.5%	8.6%	8.4%	6.4%
LEVERAGE,debent ajst	0.6	4.1	2.7	3.4	4.2	4.5	4.5

SOFIHDES LOANS PROJECTIONS date SEPT 85 $1750m

LOANS/WRITE-OFF	1984	1985	1986	1987	1988	1989	1990
COMMITMENTS	1020	3914	1750	1750	1750	1750	1750
DISBURSEMENTS	457	3933	1697	1750	1750	1750	1750
WRITE-OFF	0	0	80	80	83	83	83
REFLOWS	0	820	377	1216	1634	1600	1791
OUTSTANDING	457	3570	4811	5265	5299	5367	5243
% OUTSTDNG CAT 1	31%	16%	18%	24%	28%	31%	33%
% OUTSTDNG CAT 2	36%	25%	31%	33%	34%	34%	33%
% OUTSTDNG CAT 3	32%	30%	32%	35%	37%	36%	34%
% OUTSTDNG CAT 4	0%	25%	19%	9%	0%	0%	0%
% OUTSTDNG CAT 5	0%	4%	0%	0%	0%	0%	0%
FUNDING SOURCES							
disbursements	457	3933	1697	1750	1750	1750	1750
cumul	457	4390	6087	7837	9587	11337	13087
fds from FDI	52	48	100	200	100	0	0
cumul	52	100	200	400	500	500	500
fds from reflows	0	0	0	0	0	1600	1800
cumul	0	0	0	0	0	1600	3400
fds debentures	0	300	200	0	-125	-125	-125
cumul	0	300	500	500	375	250	125
fds from AID	405	3585	1397	1550	1775	275	75
cumul	405	3990	5387	6937	8712	8987	9062
REFLOWS							
reflows/period	0	820	377	1216	1634	1600	1791
reflows/cumul	0	820	1197	2412	4046	5646	7437
term deposit	0	300	1100	2400	4000	4000	4000
balance	0	520	97	12	46	1646	3437
loan funding	0	0	0	0	0	1600	3400
difference	0	520	97	12	46	46	37

Write-off assumptions
cat 1 7%
cat 2 5%
cat 3 2%

61

DFC COST-BENEFIT ANALYSIS (1985 $000's)

	Costs				Benefits			Present Value	
Year	Technical Assistance to DFC	DFC Operating Costs	Gross Industrial Investment	Total Costs	Industrial Capital	Gross Return on Capital(20%)	Net Benefit (GRC-TC)	PV of Net Benefits at 10 Percent	PV of Net Benefits at 12 Percent
1984	469	248	1662	2378	0	0	-2378	-2162	-2123
1985	194	283	14280	14757	1662	333	-14424	-11921	-11499
1986	323	325	19171	19818	15859	3178	-16640	-12502	-11844
1987	293	355	21296	21945	34237	6861	-15084	-10302	-9586
1988		376	21073	21449	53821	10786	-10663	-6621	-6050
1989		374	20316	20690	72203	14469	-6220	-3511	-3151
1990		366	18603	18969	88908	17817	-1151	-591	-521
1991		367	16934	17301	103065	20654	3353	1564	1354
1992		372	15395	15767	114846	23015	7248	3074	2614
1993		373	13995	14368	124499	24950	10581	4079	3407
1994					132269	26507	26507	9290	7620
1995					125656	25181	25181	8024	6463
1996					119373	23922	23922	6929	5482
1997					113404	22726	22726	5985	4650
1998					107734	21590	21590	5168	3944
1999					102347	20510	20510	4464	3346
2000					97230	19485	19485	3855	2838
2001					92368	18511	18511	3329	2407
2002					87750	17585	17585	2875	2042
2003					83362	16706	16706	2483	1732
							NPV	13511	3125

IRR = 12.7%

Interest Rate Analysis

The following analysis examines the recommended 14.5% average sub-borrower interest rate (see Section IV.A.4, Amended Financial Analysis, Base Case), and the recommended 5% loan fund reimbursement rate from the DFC to the trust fund (see Section IV.A.5.e, Amended Financial Analysis, Trust Fund) in order to ascertain compliance with the Guidelines on Terms of AID, published June 12, 1985.

A. The Interest Rate Charged to the Ultimate Private Enterprise Borrower: The Guidelines (Part III, D.) require that "the interest rate for a private sector borrower must not be less than the cost of money to the U.S. treasury at the time AID obligates the funds quote to the maximum extent practicable", and "that this rate should not be less than the prevailing local interest rates or the rate which approximates the opportunity cost of capital in the individual developing country". For purposes of this analysis it is assumed that the yield on a 20 year U.S. Treasury Bond is the minimum rate, and that that rate is 8.5%.

In Haiti, at present, the interest rate that can be charged by commercial banks is within a Central Bank mandated range of 14 1/2% to 19%. In practice, over the past four years commercial banks rarely charge over 16%, in most cases charge 15%, and for their best customers charge 14 1/2%. During initial DFC project implementation the rate for DFC sub-borrowers was either 14 1/2% or 15%, depending on the sub-loan analysis. Additionally, the DFC charges a 1.5% front-end fee, which is generally not the case with the commercial banks. For sub-loans under the project amendment the DFC management proposes to initially maintain that same competitive rate structure; however, the rate will obviously be subject to change depending upon economic and financial considerations. Thus, in the Mission's opinion, the DFC sub-borrower interest rate policy meets both of the above stated criteria required by the Guidelines.

B. Interest Rates on Loans to Intermediate Financing Institutions (IFI): The Guidelines (Part III, E) require that the rate charged by AID to an IFI "must be based on the appropriate rate to the ultimate borrower" as discussed above. The Guidelines further state that "adjustments may be made in this lending rate to cover the costs of intermediation ..., and to allow private institutions a reasonable profit margin."

Under the original DFC project a mechanism was established whereby the DFC repays the AID capital contribution into a Special Trust Fund at an annual interest charge of 5%. The original Project Paper recognized that a 5% rate was appropriate since operating expenses and potential loan losses would considerably reduce the net margin on the entire portfolio. However, the most serious constraint foreseen from a higher AID/DFC rate would be a resulting inability of the DFC to pay dividends due to low profit margins. It was felt that if the DFC was prevented from paying dividends when additional capital was required, it might be unable to market its stock.

For the Project Paper Amendment, appropriate financial and sensitivity analysis (Section IV, A and Annex F) were undertaken to develop the base case model for expected performance over the next five years. As justified by the Guidelines, (Part III, F) administrative expenses "for services which are not normally part of the borrowing commitment" are considered critical activities of the DFC in order to not only "produce benefit to the borrower" but also to "produce a developmental impact on the society", as recognized in the Guidelines. Examples of additional operating expenses incurred by the DFC so that its developmental and financial objectives can be achieved are:

1. Clients consistently require extensive assistance in developing business plans and properly incorporating and capitalizing the sub-project for the intended purpose of the loan. This is a necessary, but time-consuming and operationally expensive activity for the DFC.

2. The DFC has experienced difficulty in the follow-up of sub-loan projects during the implementation phase. In response to this problem, a Service Bureau will be established to assist borrowers with business accounting and other operational requirements. At least initially, this activity will require additional operational expenses.

3. A scarcity of qualified professionals in Haiti results in higher personnel costs than would normally be expected for a similar institution.

4. The high credit risk associated with the majority of the DFC's sub-loan projects requires the institution to maintain a correspondingly high reserve for bad debts.

Thus, the very nature of the development-orientation of the DFC, in fact, creates considerable upward pressure on expenses for what might, at first glance, seem to be a comfortable ten percent spread. The ultimate financial success of the institution will depend on its ability to generate a reasonable profit, since this will be imperative for raising additional amounts of equity capital in the future. In that regard, base case projections for the next three years are as follows:

Income	1986	1987	1988
Interest	641	848	975
Commissions	38	39	38
Other Income	139	210	286
	818	1,097	1,299
Expenses			
Interest	(283)	(345)	(401)
Bad Debts	(114)	(114)	(118)
General Reserves	(50)	(23)	(11)
Administrative	(357)	(430)	(500)
Total Expenses	804	912	1,030
Net Income (Loss):	14	185	269
Dividends		50	

As can be seen from these projections only a $50,000 dividend payment can be expected in 1987, which is the minimal amount proposed to attract an additional $500,000 in equity as required by the project amendment. Thus, under these projected circumstances it would not be prudent to increase the 5% interest rate on the AID-financed capital contribution to the 8.5% Treasury Rate since each 1% increase would cause a corresponding $43,000 decrease in the forecasted 1987 profit. That decreased profit would constrain the DFC's ability to pay a dividend, and, consequently, significantly impair its capability to raise more equity.

Therefore, based on the above analysis, the mission concludes that the spirit and intent of the Agency's interest rate policy is being fulfilled by maintaining a 5% per annum interest change to the DFC for the AID capital contribution.