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AGRICULTURAL CREDIT BANK OF JAMAICA LIMITED

AGRO - INDUSTRY PROJECT

(GOJ/USAID 532 - 0081)

JAMAICA

CHECCHI AND COMPANY

PROGRESS REPORT No. 2

OCTOBER 3, 1983

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A. INTRODUCTION

The following report is presented by the Resident Consultants from Checchi and Company assigned to the Agricultural Credit Bank (ACB).

The report describes the Consultants' major activities and the Project's progress during the month of September 1983.

B. CREDIT POLICIES

An agreement with regard to the credit policies and the lending coordination arrangements will have to be negotiated as soon as possible with the Commercial Banks. Otherwise, the start up date of the credit operations could be delayed.

The first draft on Credit Policies for the Project's Loan/Guarantee Component was discussed by the ACB and the resident Consultants on September 12, 1983. The ACB's most significant change to the draft is related to the credit mechanism that the ACB will use for lending to the Commercial Banks. The ACB's decision is to provide the loans to the Commercial Banks on the basis of separate loan agreements for each sub-loan or group of sub-loans (as is presently done in the Agricultural Credit Programme) rather than on the basis of a line of credit to each Commercial Bank. The mechanism of the line of credit was proposed by the Chief of Party (COP) because it minimizes the number of loan agreements, and also the number of accounting records and postings. The ACB indicated that the line of credit would not be a suitable mechanism because the ACB would not be able to meet the Commercial Banks' demand for providing sub-loans for purchases in USA dollars.

The second draft on Credit Policies includes all the changes suggested by the ACB to the first draft, and was forwarded to the ACB's Officers on September 16, 1983.

The first policy draft on Loans for Feasibility Studies was also forwarded to the ACB on September 16, 1983. The ADU's Manager addressed this draft on a memorandum to the Managing Director dated September 22, 1983. The suggestions made by the ADU are described below.

- a. To consolidate into one loan the feasibility study and investment loans if the former is followed by an investment loan to finance the project analyzed in the feasibility study. This arrangement will minimize the administrative cost by reducing the number of loan accounts (the Project Paper also recommends this arrangement). The arrangement is sound provided:
 1. that the sub-borrowers' legal costs are not going to be significantly higher than under separate loan agreements, and
 2. that the Commercial Banks are willing to consolidate the feasibility loan under the same terms than the investment loan, or the ACB negotiates with the Commercial Banks a compromise on such issues as the ACB's full guarantee on the part of the consolidated loan that was used to finance the feasibility study.
- b. To write off loans for feasibility studies that do not turn out viable. This can be done without damage to ACB's financial health if the GOJ provides the funding as grants to industry (rather than as a loan and/or equity to the ACB). The ACB's memorandum indicates that this arrangement has been agreed upon with the Government of Jamaica.

C. TRAINING

The Basic Training Programme was modified. The number of training sessions on Production/Processing operations was decreased due mainly to the ACB's decision to send ADU's officers to two important seminars.

The basic training on Production/Processing operations took place from September 6 to the 20th.

Mrs. Daphne Brown and Mrs. Leela Koshy of the ADU were the only persons that attended the training sessions. A total of 19 hours of training sessions were provided, and 8 plant visits were made by the group (please refer to the attached report from Mr. S. Morgan for more information).

Mrs. Brown and Mrs. Koshy attended a Food Processing Conference which took place in Kingston from September 19 to the 23rd.

Mrs. Koshy also attended a Marketing Seminar for CBI countries held in Miami from September 26 to the 30th. This seminar was sponsored by the Department of Commerce of the U.S.A.

Mr. Lane Hanan and Mr. Edwin Cooper (Short-term Consultants provided by Checchi and Company) completed the preparation phase for the Basic Course on Credit Analysis. During this phase, they prepared the training programme and the papers that will be given to the participants.

Mr. Hanan arrived in Kingston on September 12, 1983 and Mr. Cooper on September 14, 1983.

D. CREDIT PROCEDURES

The ACB decided that the Project's credit operations will be carried out on the basis of the loan processing guide lines that the ADU has already prepared, and the procedures that are used in the ACB's Agricultural Credit Project. Therefore, the consultants' strategy for assisting the ACB on credit procedures is to adapt any recommendations to the existing guide lines rather than to use a system analysis approach.

The ACB's decision mentioned above will possibly lead ~~to~~ the ACB to start up the credit operations sooner than if it follows the system analysis approach. The latter approach would require an active participation

of the ACB Office, but their participation is very unlikely under their present time constraints. The ACB's management has stated that its top priority is to start up the credit operations immediately.

a. Guide lines

The ADU has prepared the following Guide Lines:

1. ACB Project Enquiry Form
2. Commercial Bank's Application
For Participation, June 21, 1983
3. Sub-Borrower Application for Loan Assistance, June 21, 1983
4. Project Appraisal Format for Large Projects, September 20, 1983
5. Project Appraisal Format for Small Projects, September 20, 1983
6. Suggested Outline for a Feasibility Study, June 13, 1983
7. Suggested Terms of Reference for Consultants preparing Feasibility Studies
on ACB Project, June 13, 1983
8. Application for Project Preparation Assistance, September 21, 1983

b. Drafts for Discussion

1. The drafts of a Loan Application Form (Request for Loan Eligibility Appraisal) and the instruction for carrying out the Eligibility Test were prepared and forwarded to the ADU on September 14th. The ADU expressed its disagreement with the drafts on a memorandum to the Managing Director, dated September 19, 1983. The ADU's recommendation is to implement the Sub-borrower Application for Loan Assistance proposed by the ADU on June 21, 1983.
2. A procedure for Processing Loan Applications was drafted, but was not distributed in view of the ACB's decision to follow the procedure used for agricultural loans.

3. The control systems for disbursing loans to the Commercial Banks, and for keeping record of Project funds are being typed.

E. LOAN APPRAISALS

Mr. Jason Eckford, Consultant provided by Checchi and Company arrived in Kingston on September 18th. He received from the ACB 25 loan inquiries from Agro-industries.

He has received support from the ADU, Mr. David Logan of the Jamaica Development Bank and Mr. Steve Morgan. As of the end of the month, Mr. Eckford had screened the inquiries for establishing a schedule to visit the industries that appear most promising for obtaining loans, and had visited 5 firms with Mr. Morgan.

F. OTHER ACTIVITIES

1. A preliminary work plan outline for providing training and Technical Assistance on Production/Processing operations, was prepared by Mr. Steve Morgan on September 15, 1983 following a request made by the C.O.P. The outline covers the first year of the consultant's services (the C.O.P. has the written outline and will be typed in October). The Work Plan will be revised in order to integrate it into an overall Technical Assistance Plan.
2. The C.O.P. assisted the ADU in the preparation of an up-dated schedule for disbursing the total amount of Project funds. The schedule's target is to disburse the USAID funds before September 30, 1985.
3. The C.O.P. prepared a paper providing the following information:
 - (i) suggestions for financial arrangements with the Government of Jamaica in order to protect the ACB's financial situation,
 - (ii) an estimate of the Project's contributions to ACB's profits, and
 - (iii) a recommendation to promote the Commercial Banks' participation in

loan appraisal activities in order to avoid loan processing 'bottle necks' in the ADU and to use 50% of the ADU's Officers time in technical assistance activities. This paper is being typed at present and will be distributed as soon as possible.

- 4. The C.O.P. assisted the ACB in the coordination arrangements for obtaining the services of 4 short term consultants.

G. PLANS FOR OCTOBER

- 1. The ACB establishes the Project's credit policies (from previous months)
- 2. The ACB and the Commercial Banks negotiate the loan agreement (from previous month)
- 3. The ACB discusses with the Commercial Banks the Credit Operation guide lines and procedures, and also the Commercial Banks' interventions in the processing of Sub-loan applications.
- 4. The three weeks course on Credit Analysis is completed.
- 5. The one week seminar on Agro-industry Economics is completed.
- 6. Discuss with the ACB the disbursement control procedures.
- 7. Discuss the loan appraisals prepared by the short-term consultant.
- 8. Provide support to the short-term consultants as necessary.
- 9. Discuss the short-term consultants' end of the assignment reports.
- 10. Assist the ACB in the preparation of any procedures that it may deem necessary.

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MEMORANDUM

AGRICULTURAL CREDIT BANK OF JAMAICA LIMITED

11A-15 Oxford Road, Kingston 5. Telephone: 929-4000

TO: Mr. Gustavo Gomez - COP USAID/Checchi Co

SUBJECT: ACTIVITIES FOR SEPTEMBER

FROM: S.R. Morgan - Production Specialist
Agro - Industrial *SRM*

DATE: 27th September 1983

Activities for Month of September 1983

The greater part of the month was dedicated to the preparing of subject matter for training sessions, conducting sessions, and making plant visits.

The schedule called for a total of three weeks dedicated to training sessions provided for a small group of persons. One, Marketing Specialist, Two Procurement Specialist. Because of the background of the two persons in attendance, the writer emphasized the role of raw materials, development of base product and factors leading to finished product cost prior to marketing.

Considerable time was spent in discussing the role of agri-business, current projects development in Jamaica, and West Indies: and the necessary linkage to agro-industrial development.

1. Raw Materials

Procurement:

- a) Availability, cost, influence of quality on final product.
- b) General cost of base materials and influence on final product.
- c) Agro-business survey 1982.

Small farming relationship and sourcing.

- d) Current agro-investment development status and possible relationship to agro industrial development of basic materials. Implications.

- e) Programme implications for technical assistance.
- f) Application of appropriate technology to bolster the chances of agro industrial sector.
- g) Relationship to loan request and general assessment.
- h) Need to up-grade basics and reduce cost in order to meet competition.

2. Reduction of Constraint Problems

- 1) Technology, training inputs discussion.
- 2) Product planning, production planning, scheduling factors.
- 3) Producer - Processor agreements.

Pricing

- a) Relationship to market distribution.
- b) Product cost effect influences:

Raw Materials - uncertainty
Quality

Factory - efficiency
- cost make-up

Produce: Condiments, other. Container - packaging - labour

O/H Fixed - Variable.

Problems relating to Processing Inefficiencies

- 1) Layout deficiencies.
- 2) Maintenance
- 3) Unrealistic short operating runs and volume.
- 4) Inventory control.

3. Technical and Economic Aspects Relating to the Inter-Relationship of Agro-business and Agro-industrial Sectors.

- a) Potential effect of new Bank loans on the processing sector.

- new plantings
- plant expansion
- exportation oriented
- produce to product conversion

5. General Plant Layout and Equipment

Planning rules: All functions have the same or near equivalent capacity:

- Examination of flow diagrams for processing fruits, vegetables, juices and meats.
- Presentation of visual aid in order to discuss layout of product movement. Weakness, limitation, improvement, yield and quality retention.
- Example of operating losses.
- Example of variation of produce supply effects line efficiency.
- Example of product cost assignment.

6. Juices, Purees and Concentrates

- Definition. Standards requirement. Canada and U.S.
- Make -up of pulp and paste.
- Equipment used in manufacture.
- Ratio of raw material to stages of concentration.

7. Plant Visits

- Eight different plant layouts were examined for the purpose of identifying processes and equipment.
- General orientation as to line layout.
- Condition of plant. Maintenance. Problems, defects, worker conditions, housekeeping.
- Product lines : Citrus, pepper sauces, marmalades, jellies, fruits,

- vegetables, fish, meats.
- Canned, frozen, smoked, fresh, brined, pickled.

The above to provide for inplant experience to be adopted to loan request projects.

- Developing file for write-up for each Plant visited.

8. It was necessary to drop the training sessions prior to completion for the following reasons.
 - a) The two Specialists attended the JMA Food Processing Conference. (Jamaica)
 - b) The Marketing Specialist is currently attending a marketing conference for one week (Miami).

I would anticipate up to four more days of training which will be resumed during early October in order to complete the broad area relating to processing operations - procedures - equipment utilized and examination factors.

9. The writer has prepared a work plan outline that should carry through the first year of the project.
10. Currently, technical assistance is being provided to the three consultants assigned to the project who are responsible for examining loan applications and conducting loan credit analysis.

11. Outside Meetings Attended

Jamaica Manufacturers Association

Agro 21 meeting report by Dr. Kohn. (Report on this meeting completed and forwarded for your attention).

Activities Planned for October

1. Continue to provide assistance to the Checchi consulting team. Day-to-day basis.
2. Attend Consultants Training Sessions and participate in area of expertise.
3. Complete training sessions for ACB Specialists.
4. With Mr. Jason Eckford visit Plants requesting loan assistance.
Provide technical inputs and provide assessment inputs for individual loan requests.
5. Assist producers in identifying raw material source.

S.R.MORGAN