PD-AAY-636
ISN 58986

AFRICA GROWTH FUND

PROJECT PAPER
(698-0528)

Approved: July 29, 1988

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

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

DOCUMENT CODE: 3

2. COUNTRY/ENTITY: AFRICA REGIONAL

3. PROJECT NUMBER: 698-0528

4. BUREAU/OFFICE: AFR/MDI — 06

5. PROJECT TITLE (maximum 40 characters): AFRICA GROWTH FUND

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 09 DD 30 YY 92

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

A. Initial FY 88 — B. Quarter 4 — C. Final FY 90

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

A. FUNDING SOURCE		FIRST FY 88 B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total							
(Grant)		(800)	( )	(800)	(1,400)	( )	(1,400)
(Loan)		( )	( )	( )	( )	( )	( )
Other U.S.	1. OPIC (GUARANTEED	--		--	20,000		20,000
	2. NOTES)						
Host Country							
Other Donor(s)	PRIVATE FIRMS	3,000		3,000	10,000		10,000
TOTALS		3,800		3,800	31,400		31,400

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	C. 2. Loan	D. OBLIGATIONS TO DATE 1. Grant	D. 2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	E. 2. Loan	F. LIFE OF PROJECT 1. Grant	F. 2. Loan
(1) DFA	771	840							
(2)									
(3)									
(4)									
TOTALS									

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each): 810 | 910

11. SECONDARY PURPOSE CODE:

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

A. Code: DEL

B. Amount:

13. PROJECT PURPOSE (maximum 480 characters)

To establish the Africa Growth Fund, a new investment company providing equity and quasi-equity financing to industries throughout sub-Saharan Africa.

14. SCHEDULED EVALUATIONS

Interim MM YY MM YY — Final MM 09 YY 91

15. SOURCE/ORIGIN OF GOODS AND SERVICES

☐ 000 ☐ 941 ☐ Local ☒ Other (Specify) OPIC's rules apply

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

17. APPROVED BY

Signature: [signature]

Title: Warren Weinstein
Associate Assistant Administrator

Date Signed: MM 07 DD 29 YY 88

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

AID 1330-4 (8-79)

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D C 20523

JUL 29 1988

ACTION MEMORANDUM FOR THE ASSISTANT ADMINISTRATOR FOR AFRICA

FROM: AFR/PD, James Graham

SUBJECT: Africa Growth Fund Project (698-0528), Africa Regional

I. Problem. Your approval is requested for: (1) the four year Africa Growth Fund Project (698-0528) to be managed by the Overseas Private Investment Corporation (OPIC) and implemented by a limited partnership called the Africa Growth Fund, with a projected life-of-project cost of $1.4 million of A.I.D. grant funds and (2) a fiscal year 1988 allocation of $800,000 to OPIC to cover operating costs in year one of the project.

II. Discussion.

Description: On October 23, 1987, OPIC submitted an unsolicited proposal to A.I.D. to support the Africa Growth Fund (AGF), a planned limited partnership through which equity investments can be made in viable enterprises in sub-Saharan Africa. Capital for the fund will be provided through $10 million in equity subscriptions from U.S. investors and $20 million in OPIC guaranteed notes. The AGF will supply equity capital essential for soundly-financed enterprises and will concentrate on investing in companies that are well-managed and have the potential for meeting growth targets. Citicorp Investment Bank has been retained by OPIC to market the equity subscriptions and place the OPIC guaranteed notes. Equator Holdings Limited (Equator), a wholly owned subsidiary of the Hong Kong and Shanghai Banking Corporation, has been selected by OPIC to manage the fund. Investors would realize returns on their investment in the AGF through sale of the investment and subsequent capital gains.

Through a series of internal A.I.D. reviews and meetings with OPIC, the original submission which requested $4.2 million of seed capital from A.I.D. was modified to the current request for conditional A.I.D. support. The basic conditions of this proposal are as follows:

1. If OPIC first obtains firm equity investment commitments of $3 million, then A.I.D. will contribute $800,000 in FY 1988 to cover operating costs of the AGF in year one (1988-89) of the project;

2. If paid-in private sector equity has increased to $7 million by the end of year one, then A.I.D. will contribute about $354,000 in FY 1989 toward the AGF's operating costs in year two (1989-90) of the project;

2

3. If paid-in private sector equity has increased to $10 million by the end of year two, then A.I.D. will contribute about $198,000 in FY 1990 toward the AGF's operating costs in years three and four (1990-92) of the project.

Purpose: The project purpose is to stimulate growth in sub-Saharan African economies by investing and supporting American and local investment in the private sector.

Implementation: The AFR/MDI Office will serve as the A.I.D. project manager, and AFR/PD/SWAP will provide any needed project development support. Because OPIC will directly manage the project for the U.S. government, A.I.D. management requirements will be minimal. It is anticipated that A.I.D. and OPIC representatives will meet at least once a year to review progress and to determine if conditions warrant continued A.I.D. support. A.I.D. will receive quarterly reports that document the nature and amount of investments made, the basis for the investments, who the recipients are, type of activity supported, and other information needed to monitor the project. The A.I.D. field missions will become involved only under exceptional circumstances.

OPIC's direct oversight over the activity will include the right to approve individual investments based on their eligibility and policy guidelines. OPIC will also issue up to $20 million of guaranteed debt notes, which will be available for investment by the AGF. In selecting investments, OPIC and Equator will consider, among other things, the overall growth prospects of the company; the company's competitive position in relevant markets; the adequacy of its management, technology, research and development; and its productivity, profit margins, and return on investment.

As mentioned, the AGF will be organized as a limited partnership and will be managed by Equator Holdings Limited. Equator provides merchant banking plus trading and consulting services solely in sub-Saharan Africa and will serve as the General Partner, but will not make equity investments. Limited partnership interests will be offered to U.S. corporations and institutional investors at a cost of $1 million each, or some fraction thereof, with the goal of obtaining $10 million in equity investment. Citicorp will act as the AGF's placement agent for the limited partnership interests and will become a limited partner itself.

Relationship to A.I.D. Strategy: The project fits the goals of both A.I.D. and OPIC. It emphasizes private sector initiatives as a means of achieving economic growth and facilitates U.S. private sector investment in Africa. Many countries in sub-Saharan Africa lack a vibrant private sector, and economic growth has been stagnant. This project addresses those concerns by promoting private investment in African businesses with growth potential.

Beneficiaries: The ultimate beneficiaries will be the companies into which investments are placed, their employees and clients and, if successful, the economies of African countries where the investments are made. The AGF intends to invest in a broad spectrum of industries, including agribusiness, cement, chemicals, construction, electrical equipment, communications, electronics, finance, insurance, leasing, international trading, mining and energy. Beneficiaries of the investments will be identified as part of the approval process.

III. Financial Summary.

A.I.D.'s financial contribution to the project will be made available through allocations of A.I.D. funds to OPIC. Section 632 (a) of the Foreign Assistance Act (FAA) of 1961, as amended, gives A.I.D. the authority to make such allocations to other U.S. government agencies in order to carry out the purposes of the FAA. Funds so allocated may be obligated and expended under the authority of either A.I.D. or the agency receiving the allocation. In this case, OPIC's authority will be used for the formal project authorization as well as for the obligation and expenditure of funds. A.I.D. will make yearly allocations upon receipt of documentation verifying that the conditions for A.I.D. participation have been met. The fiscal year 1988 allocation of $767,000, as well as expected future year allocations, is from the Development Fund for Africa. By executing the attached Memorandum of Understanding, A.I.D. and OPIC will agree to the terms and conditions of this fiscal year 1988 allocation.

A.I.D. Contributions by Project Year (in $000)

Year 1	Year 2	Year 3	Contingency	Life of Project
800	354	198	48	1,400

The Fund will be capitalized at $30 million, as follows:

Partnership Interests (equity)	$10,000,000
OPIC-Guaranteed Notes	20,000,000
Total Fund	$30,000,000

The equity subscriptions will be placed over a period of time not to exceed two years. The placement of OPIC-guaranteed notes will be made during the period 1990-91.

IV. Soundness.

Human Rights: No human rights clearances are necessary for this regional project.

Initial Environmental Examination: This activity meets the criteria for a "categorical exclusion" in accordance with Section 216.2(c)(2)(vi) and is, thereby, excluded from future environmental analyses. The Africa Bureau Environmental Officer concurs in this determination.

ν

Financial Analysis: The financial projections and underlying assumptions are considered reasonable, although A.I.D. and OPIC recognize inherent risks associated with investments in countries typically characterized by weak investment banking and capital markets facilities. For example, the Fund will need to consider the likelihood of a possible "exit vehicle" in a given market five to fifteen years from now when the Fund would want to sell its project investment in that country.

Other Required Analyses: The required technical, financial and administrative analyses will be part of the investment approval process under OPIC's auspices. It should also be noted that the partners, including Equator, will closely monitor the performance of the recipients of investment capital. OPIC and Equator will assure that investment opportunities for the Fund are screened for eligibility under established OPIC criteria and are analyzed not only for basic economic and financial viability but for growth and subsequent sale at a suitable profit. While Equator will recommend investments for the Fund, OPIC will decide whether, and on what terms and conditions, the Fund will commit to any recommended investment. Under established procedures, OPIC's review will include such matters as are appropriate in deciding on the quality of the contemplated investment, its suitability under the Fund's investment objectives, and its eligibility under OPIC's enabling statute and existing policies, particularly with regard to U.S. and developmental effects, performance requirements, employee health and welfare, and human rights.

Following OPIC approval, the Fund Manager will prepare and execute investment commitment documents and upon satisfaction of agreed-upon conditions will disburse the funds. The Fund Manager will hold the instruments in project companies and maintain the necessary records and accounts.

V. A.I.D. Documentation. There is no Project Identification Document (PID); the unsolicited proposal from OPIC, as amended, constitutes the Project Paper (PP). The OPIC proposal underwent a preliminary Africa Bureau review in November, 1987, which led to the Bureau's March 9, 1988 agreement in principle with OPIC to help finance the project. We consider the November review to constitute a PID-like review and subsequent reviews with yourself and other committee members in December, 1987 and March, 1988, to constitute the formal A.I.D. review of the proposal.

VI. Justification to the Congress. The Congressional Notification (CN) has been prepared and, in accordance with the Memorandum of Understanding, OPIC will not obligate funds until the Congressional waiting period for the CN has expired without Congressional objection.

VII. Recommendations. That you (1) sign below to approve the subject project, and (2) sign the attached Memorandum of Understanding to allocate $800,000 in FY 1988 funds to OPIC for the project.

Approved: ____________

Disapproved: ____________

Date: AUG 3 1988

Attachments:

A. OPIC/A.I.D. Memorandum of Understanding
B. Project Checklist
C. A.I.D./OPIC agreement in principle (AFR letter to OPIC, dated March 9, 1988)
D. Project Proposal

Clearances:

AAA/AFR/MDI, WWeinstein	(draft)	Date 7/8/88
AFR/TR/PRO:BBoyd	(draft)	Date 7/26/88
PPC/PDPR:NZank	(draft)	Date 7/13/88
PPC/PB:RMaushammer	(draft)	Date 7/14/88
AFR/DP:JWestley		Date 8/3/88
GC/AFR, CBisson		Date 7/28/88
DAA/AFR, WBollinger		Date 8/3/88
AFR/CONT:RKing	(draft)	Date 7/25/88
PPC/PB:GHill	for	Date 8/3/88
FM/CAD:JHevesy	(DRAFT)	Date 8/1/88

Drafted by:AFR/PD/SWAP:BBurnett:edl:07/05/88 4935M

Investment Guaranty

Sub-Saharan Africa:
The Africa Growth Fund

Table of Contents

Investment Guaranty

Sub-Saharan Africa: The Africa Growth Fund

1. SUMMARY

1.1 The Fund. The Africa Growth Fund (the "Fund") will be a new investment company established to provide equity and quasi-equity financing to a wide range of industries throughout sub-Saharan Africa. The Fund will be managed by Equator Holdings Limited ("Equator") with OPIC retaining final selection of investments based upon OPIC eligibility and policy guidelines.

The objective of the Fund will be to stimulate growth in the African economies by investing and supporting American and local investment in the private sector. Sound, attractive investments are emerging there after years of comparative stagnation, as many African governments are abandoning unproductive economic policies. Many of these governments now favor growth strategies based on market economy principles and increased free enterprise. In particular the Fund will supplement scarce equity capital needed to accelerate business expansion and will support efforts to assure that projects are well managed with emphasis on efficiency, profitability, and growth.

Equally important, the Fund will provide OPIC with an added presence in sub-Saharan Africa, greatly enhancing its ability to promote further U.S. investment in the region, thereby supporting the objectives of the Baker Initiative.

1.2 Partnership. The Fund will be organized as a limited partnership with Equator as the General Partner, but with a nominal investment. Limited partnership interests (the "Limited Partnership Interests") will be offered to U.S. corporations and institutional investors with five to twenty investors expected to comprise the limited partnership group (the "Limited Partners"). The First Boston Corporation ("First Boston") will act as the Fund's placement agent for the Limited Partnership Interests.

1.3 Fund Costs and Financial Plan. The Fund will be initially capitalized at $30 million comprised of $10 million in Limited Partnership Interests and

$20 million in OPIC-Guaranteed Notes (the "Guaranteed Notes"). The Fund's financial plan and calculation of the initial amount available for investment, net of initial expenses, are as follows:

Fund Costs

Placement Fees	$ 350,000
Legal and Organization Costs	100,000
Available for Investment	29,550,000
Total	$30,000,000

Financial Plan

Partnership Interests	$10,000,000
OPIC-Guaranteed Notes	20,000,000
Total	$30,000,000

1.4 OPIC Participation. It is proposed that OPIC guarantee up to $20 million of notes to be issued by the Fund, with OPIC's guaranty covering the full and timely payment of interest and, at maturity, the due and payable principal. Each Guaranteed Note will mature in one balloon payment up to 15 years after issuance and will provide for semi-annual interest payments to the guaranteed noteholders.

OPIC will share with the Limited Partners and the General Partner in all distributions of Fund income, including net capital gains, on the basis of a ratio to be negotiated.

Based on OPIC's position as a guarantor of the Fund's notes, OPIC will retain approval rights over the use of the proceeds of the Guaranteed Notes, thereby controlling investment decisions as well as the selection of the Fund's manager.

1.5 Manager and Advisor. Equator, a corporation whose majority owner is the Hongkong and Shanghai Banking Corporation, will be the Fund's General Partner and will manage the Fund. Incorporated in 1975, Equator successfully operates merchant banking, trading, and consulting services solely in sub-Saharan Africa. Equator's corporate headquarters are in Hartford, Connecticut, with other offices in London, Lusaka, Washington, and the Bahamas. The Fund will enter into a multi-year management contract with Equator.

First Boston will provide advisory services and act as placement agent for the Limited Partnership Interests and the Guaranteed Notes. Once the Fund has been capitalized, First Boston will provide asset management services for the Fund's liquid assets pending investment in African projects and subsequent liquidation to the Limited Partners, the General Partner, the holders of the Guaranteed Notes, and OPIC. First Boston is a leading investment banking organization, headquartered in New York City, specializing in international capital markets operations.

1.6 Status of the Project. First Boston and OPIC have been discussing the objectives, capitalization, and structure of the Fund since 1985. In July 1986, OPIC discussed the concept with Equator, which had begun its own planning on a similar concept and had started to identify potential investment opportunities. Because of Equator's acknowledged, extensive business experience in Africa and OPIC's need to provide for qualified management of the Fund, OPIC expects to condition its guaranties on Equator's being selected as the Fund's manager. The terms and conditions of that arrangement, including the manager's fee, must be negotiated. The financial projections of the Fund presume that Equator's compensation will cover its expenses and provide an incentive fee based on the Fund's performance.

In December 1986, OPIC, on behalf of the Fund, retained First Boston to take the lead in raising up to $10 million of equity interests in the Fund. This effort is proceeding on schedule. When First Boston has obtained sufficient interest in the purchase of Limited Partnership Interests and the OPIC Board has approved the issuance of guaranties, the Fund will be legally organized and a management contract with Equator will be executed. The Fund should begin operations early in 1987, with its first project investments committed shortly thereafter.

1.7 Summary of Operations. Based on the projections of Fund activity, the Limited Partners should realize an average compound annual return of 22 percent over the 15-year life of the Fund. Most of the gain will be realized during years five through ten when the Fund is projected to sell 75 percent of its investments and realize capital appreciation. In the earlier years, the Fund's net income will be minimal.

The projections indicate adequate coverage for interest payable on the Guaranteed Notes and show that interest on the Guaranteed Notes could be covered from operations even if the Fund realizes no capital gains.

The summary of projected operations is as follows:

	1988	1989	1990	1992	1994	1996	1998	2000
Cash from Operations ($000's)	570	449	454	3564	11948	8311	2179	2016
Interest Coverage	N/A	N/A	1.7x	4.1x	11.8x	8.7x	3.2x	3.1x
Return on Assets	3%	(1%)	(1%)	13%	45%	36%	12%	12%

1.8 African Economic Effects. The developmental benefits of the Africa Growth Fund should be far-reaching. It will be a new, American-based private development fund, whose focus will be the creation, expansion, and revitalization of private enterprises.

The funds will be invested to start new productive ventures, expand others, and finance the privatization of state-owned enterprises. These investments will create new jobs, rehabilitate existing plants, improve product marketing, and provide sources of export earnings or import substitution for African economies.

1.9 U.S. Effects. The Fund will seek to invest in African projects that have ties to U.S. companies through a trading relationship, as an equity owner, or as a supplier of technology, management, equipment, or other assets. Each of the Fund's project investments will meet all OPIC requirements, including those with respect to U.S. economic and trade matters.

1.10 Project Team.

Robert O. Draggon	Vice President for Finance
Suzanne Goldstein	Managing Director, Financial Services
Graham Williams	Senior Business Development Officer
Donald DiLoreto	Intern
Bruce Ghrist	Assistant General Counsel for Finance
Marsha Cohan	Counsel
John R. Aldonas	International Economist, Office of Development

2. RECOMMENDATION AND BASIS

2.1 Recommendation. It is recommended that approval be given for the issuance of OPIC's investment guaranties in the maximum principal amount of $20 million of the Fund's notes issued to eligible investors as defined in section 238(c) of The Foreign Assistance Act.

2.2 Bases for Recommendation. The Africa Growth Fund will help to realize the economic reforms now being undertaken by many African governments. While many of the countries are beginning to encourage private investment and market-oriented economies, the private sector's means to respond are inadequate. The Fund will help fill this gap by providing investment capital and management services for the development and implementation of productive private sector businesses in the region. The long-range objective of the Fund will be to serve as a catalyst in increasing capital formation and private sector development leading to an overall increase in employment, foreign exchange revenues, and demand for raw materials, goods and services in a number of countries and markets in sub-Saharan Africa.

The financial projections show a 22 percent return for the Limited Partners and substantial income for OPIC as well; and while the Fund managers will seek investments with excellent prospects for higher than average investment returns they will also act to protect the viability of the Fund. It is expected that a number of major American companies will invest in the Fund because it can give them an attractive financial return as well as recognition for contributing to economic development in sub-Saharan Africa.

The Fund provides the U.S. Government with an important new initiative with which to address the pressing development needs in sub-Saharan Africa, particularly as major budget cuts in the U.S. foreign assistance program for FY 1987 and FY 1988 make it increasingly difficult for the Government to meet its development goals in the region. The Fund will also complement and support several other aspects of U.S. foreign policy, most notably the Baker Initiative and various AID development programs. The Fund will assist in the mobilization of equity for economic development as an alternative to the use of debt, as well as facilitate the development of the private sector. In addition, the concept of the Fund contributes to the Administration's plans for a special 1987 initiative to reduce hunger in Africa.

Further, in OPIC's recent reauthorization, Congress strongly reaffirmed its intent that OPIC give preferential consideration to assisting development in the least developed countries. A high percentage of the countries in sub-Saharan Africa meet this description.

As an important ancillary benefit the Fund will provide OPIC with a permanent presence in several important African markets and supplement OPIC's other investment activities in the region. As it identifies and develops new projects, the Fund should be able to provide OPIC with finance and insurance business meeting OPIC legislative and Board criteria. If successful, the Fund could serve as a model for similar initiatives in other markets where OPIC is active.

Another important benefit is that the Fund's investments will generate new business opportunities for U.S. companies, calling for U.S. equipment, components, supplies and technology. The Fund's operations, therefore, should have a positive effect on U.S. exporters, helping U.S. companies compete more effectively in African markets.

3. INTRODUCTION

3.1 Background. Because of continuing Congressional interest in directing additional OPIC resources to the poorest countries in the world, in particular sub-Saharan Africa, OPIC has initiated several activities designed to increase its level of business there. Given the already unmanageable debt problem facing Africa, a new effort based on OPIC's ability to provide debt capital seemed unattractive; so, OPIC began to seek out ways to encourage additional equity or quasi-equity investment in the region. The result of that effort was the design of an equity fund which would raise most of its capital through the use of OPIC's guaranty authority. Since 1985, OPIC has been working on this concept with First Boston and, more recently, with Equator.

The effort with First Boston stalled primarily because First Boston was unable to identify a sufficient number of African investment projects. Subsequently, OPIC approached Equator because Equator's extensive experience, evident commitment, and broad-based presence in Africa make it the most suitable candidate for this undertaking. At OPIC's request Equator compiled a list of about fifty suitable projects whose investment requirements exceed the Fund's proposed total capitalization. During the past six months, OPIC, Equator, and First Boston have worked to organize the Fund and to develop an appropriate investment strategy.

3.2 Economic Conditions in Sub-Saharan Africa. Sub-Saharan Africa today is a deeply troubled region, posing the world's most difficult development challenge. As the Organization of African Unity's 1985 self-critical recovery plan states, nothing short of radical measures will be necessary "to save the African economy from collapse and ensure the fundamental restructuring and policy reorientation that will launch the continent on the path of self-sustained development."

World Bank figures also testify that Africa is a continent in crisis. For the majority of the economies of sub-Saharan Africa, the period since 1979 has been one of sustained stagnation or escalating decline. This combined with Africa's rapid population growth has markedly increased the rate at which Africa's per capita income is declining.

Contributing to the region's poor economic performance has been a declining rate of domestic investment, now estimated to be the lowest of any area in the world, and in the words of the World Bank "too little to provide for new productive capacity or even maintain and rehabilitate existing capacity."

Of all the economic problems facing Africa, the deepening debt burden is perhaps the major component in Africa's bleak economic prospects. The net flow of capital to the continent has declined from $12.6 billion in 1982 to $1.7 billion in 1985, mainly due to a drop in the level of commercial bank loans, official aid flows, and weak export performance. As a result, according to the Organization of African Unity's figures, the region's debt repayments now require 30 percent of all export earnings, four times the level of the mid-1970s. In some African countries the debt problem has become unmanageable, and even conventional reschedulings have not alleviated these problems.

African leaders in significant numbers have begun to recognize the seriousness of Africa's economic problems. Today, many of them would agree with a recent African Development Bank report which states:

> Growth cannot come simply from increased government spending and intervention in the economic process. What is necessary at this stage is for government to act to remove obstacles in the way of individual initiative, eliminate inappropriate prices and subsidies which discourage production, and effectively control waste and mismanagement in the public sector. This entails more reliance on efficient allocation mechanisms and more decentralization of decisions away from central authorities to individual producers and firms.

The magnitude of the crisis, however, requires that support for reform be coordinated; thus, the international donor community has begun to focus its concerted attention and resources on the economic needs of sub-Saharan Africa.

AID, for instance, has provided balance-of-payments assistance and funds to encourage reforms that improve the climate for private investment. The International Finance Corporation is designing experimental programs intended to expand private sector opportunities, while its new Africa

Project Development Facility can assist in evaluating and developing private sector projects.

The World Bank has organized a Special Facility for sub-Saharan Africa with $1.5 billion in pledges from bilateral donors, including $72 million from the United States. The International Development Association has increased the share of funds going to Africa from 25 percent in 1980 to 36 percent under the current $9 billion IDA VII replenishment, partly in response to strong U.S. urging. The African Development Bank ill continue its significant efforts in project lending and has recently increased its resources devoted to the private sector.

These policy reforms, encouraged and financially supported by national and multinational aid agencies, are aimed in part at improving the opportunities for private investment. Most African economies, however, will remain very fragile for the next few years, and most investors will remain far from enthusiastic about making major commitments. This is true for most local, African firms and for all but a few foreign ones. Among them, European investors with a long history of dealing with the region will be less reluctant than American investors.

Nevertheless, most African leaders and donor agencies realize that the success of their new policies depends heavily on increased private investment and business activity. Therefore, those foreign assistance agencies, such as OPIC, that promote development through private investment should also participate in the process of modernizing Africa.

3.3 <u>OPIC Exposure in Sub-Saharan Africa</u>. In the face of Africa's weak economies and the perceived high level of risk of doing business there, attracting U.S. investment to Africa has always proved difficult. In recent years, for instance, OPIC has led and co-sponsored investment missions to Africa and has undertaken programs to identify and develop investment opportunities there. As a result of these activities during the years of FY 81-84 nine percent of OPIC's new insurance contracts and sixteen percent of its finance commitments were in sub-Saharan Africa; but in FY 85, this figure dropped to less than four percent for insurance and seven percent for finance. OPIC currently has 84 active insurance contracts in the region with the maximum insurance portfolio risk of 14.7 percent of worldwide coverage. The total in guaranties and direct loan commitments since 1973 is $358,961,500 with three major projects accounting for $140 million.

In 1986, OPIC studied the steps it could take to increase U.S. private investment in sub-Saharan Africa. After analyzing a recent investment promotion activity designed to stimulate investment there, an independent evaluator drew two significant conclusions. First, given the complexity of the African investment environment, anyone developing and promoting investment opportunities in Africa must have substantial experience in project development on the continent, thereby establishing credibility with prospective U.S. investors. Second, the developer must be prepared to provide investment capital to the project, transforming itself from a broker into that of an entrepreneurial capitalist with something more to offer than specialized skills and advice. These two elements have become foundations on which the organization and capitalization of the Africa Growth Fund is based.

4. INVESTMENT POLICY AND STRATEGY

4.1 Investment Policy. The principal investment objective of the Fund will be to seek long-term capital appreciation through investment in securities, primarily equity or quasi-equity securities, of companies in OPIC countries in sub-Saharan Africa. A significant portion of the Fund's capital will be invested in investments offering a current return, because the Fund will need income to cover current operating expenses and to meet the interest payable obligation under the Guaranteed Notes. However, these investments may include debt securities with equity features, such as notes paying interest only, but convertible to equity in the project company.

The Fund intends to invest in a broad spectrum of sub-Saharan African industries, including agribusiness (food production, processing, and distribution), cement, chemicals, construction, electrical equipment, communications, electronics, finance, insurance, leasing, international trading, mining, and energy. In selecting potential investments, Equator as the General Partner will consider, among other things, the following:

(1) the overall growth prospects of the industry and the particular company;

18

(2) the company's competitive position in relevant markets;

(3) the adequacy of its management, technology, research, and development;

(4) its productivity, based on its labor and raw material costs and sources;

(5) the profit margins and return on investment; and

(6) such factors as the company's capital resources and the effects of government regulation.

The Fund intends to purchase securities not only of new ventures but also of established companies which

(1) plan to expand or modernize,

(2) require significant recapitalization to increase their competitiveness, or

(3) plan to implement a program of privatization of state-owned enterprises.

Under the investment policy, the Fund will not do any of the following:

(1) purchase, sell, pledge or refinance any African security without OPIC's prior written consent;

(2) issue senior securities (other than the Guaranteed Notes), borrow money or pledge its assets, except that the Fund may borrow for temporary or emergency purposes;

(3) purchase any project security if as a result (i) more than 15 percent of the Fund's total assets would then be invested in securities of a single issuer, (ii) more than 30 percent of the Fund's total assets would be invested in a single industry or in a single country, or (iii) more than 49 percent of the voting stock of an issuer would be acquired;

(4) buy or sell commodities or real estate except to realize foreign exchange on inconvertible currencies or otherwise protect its project investments; or

(5) act as underwriter of securities.

4.2 <u>Sources of Investment Opportunities</u>. From inception, the Fund will be in a position to consider investment opportunities as a result of Equator's having begun to identify investments. Examples of the diverse kinds of investments are described below in Section 4.3.

In particular, Equator's reputation, experience, and expertise give the Fund an unequalled organization for developing high quality investment opportunities. For instance, half of Equator's sixty officers spend more than a third of each year travelling in the African markets. In addition, its four Regional Marketing Teams cover the major markets on the continent, surveying on a constant basis the twelve to sixteen most active financial markets. They also regularly survey another eight to ten markets to identify new lending or investment opportunities, carefully following those countries which may be of increasing importance in the near future.

The newest source of project investment opportunities flows from the work of Equator's advisory company. It develops business plans for clients and prepares feasibility or pre-feasibility studies for specific investments. In a typical year it will complete investment analyses on twenty-five projects.

Beyond that, Equator has catalogued the project studies which it has completed or has received from other sources. This substantial library, which now includes more than 200 completed project analyses, provides Equator with a unique resource for evaluating project proposals; and Equator regularly compares projects under review with those previously analyzed.

4.3 <u>Examples of Project Investments</u>. Equator has provided OPIC with a list of potential investments meeting the Fund's and OPIC's investment criteria. These are investments available at a recent date, but they may not be available when the Fund becomes operational.

The four projects described below are illustrative and are not necessarily investments which the Fund will consider. Exhibit III, on the other hand, contains nineteen other potential investments describing the nature of the project business, the country, and the amount of investment involved.

KENYAN RANCH DIVERSIFICATION.

Due to recent government price controls, which reduced the profitability of local cattle operations, the American owners of a large ranch in Kenya are seeking to diversify the ranch's operations and improve its profitability. The owners of the ranch have decided to include the cultivation of high quality vegetables and other horticultural produce within the scope of the ranch's activities. The primary markets for the produce will be in Europe.

The operation's controlling U.S. corporation has a long history in Kenya and has obtained a Certificate of Approved Business from the Central Bank, allowing the repatriation of profits in foreign exchange. This corporation will be joined in this venture by another U.S.-based agricultural firm which will provide the technical and management expertise needed. The plans call for the construction of twenty acres of greenhouses for cut flower cultivation, forty acres of shadehouse, and another one hundred and sixty acres of field-grown flowers and vegetables. An additional seven hundred acres of white corn would be grown for sale to the local market. All of this acreage will be irrigated. The products available for export would be packaged and cooled at the plant and flown to Nairobi and then on to European buying centers.

The controlling U.S. corporation already has significant experience in the European marketplace and has established strong marketing ties with European buyers. Because these flower and vegetable markets are quality oriented, the project has made provisions to assure timely arrival of its produce to the markets. The European flower markets are relatively stable and margins are usually favorable.

Preliminary estimates indicate a financial structure with an aquity contribution from the U.S. technical partner, the U.S. controlling corporation, and other suitable institutional partners. The entire capital costs will be around $5.5 million, with $1.5 million in equity currently available. Return on investment is projected at about 29 percent based on a ten-year average from start-up.

NIGERIAN TRAWLING OPERATION.

While the Nigerian coast offers rich fishing potential, the fishing industry has remained undercapitalized and unable to fully exploit the deep water fish species. Domestic catches from Nigerian waters, however, have been insufficient to supply the high level of demand, and fish imports have cost the economy an average $300 million each year. Concomitantly, Nigerian waters are heavily populated with shrimp, a high value product for export.

A U.S.-based international trading group proposes the establishment of a fish/shrimp trawling venture off the coast of Nigeria. This group presently has extensive business activity in Nigeria, including an import/export business and one of the largest flour mills in West Africa.

The plan calls for the purchase of up to twelve fishing vessels. The vessels would fish the Nigerian waters, provide preliminary fish processing on board, and then unload their catch at shore facilities for final processing and freezing in the company's own processing facilities.

The total capital requirements for a twelve-vessel fleet will be $10 million. Long-term debt capital is also needed. The rate of return is currently projected at 29 percent.

REHABILITATION OF ZAMBIAN STONE CRUSHING OPERATION.

A stone crushing company with substantial ownership held by the Zambian government has sustained losses due to inefficient management, lack of machinery replacement, poor marketing efforts, and excessive labor costs. A recent study, however, indicates that the demand for the crushed stones is relatively broad and deep and that the company could be operated profitably after a major management reorganization and modest additional investment.

The company mines aggregate, limestone, lime products, marble, and talc and markets these minerals to the construction industry, agriculture, chemical and glass producers and others. The stone crushing operation has few regional competitors, and importing the products is not practical.

The new management will need to improve product quality and target the markets more accurately. Some product lines will be suspended due to unfavorable market conditions.

It is estimated that $1 million in new loans and $1.8 million in equity is needed. In addition, the company would need experienced management to streamline operations and to better reach its market.

PRIVATIZATION OF TANZANIA CASHEW PROCESSING.

Tanzanian raw cashew nut production has fallen by over 70 percent from its peak level of 145,000 tons in 1974/75 to a present level of 40,000 tons per year. Many of the existing nut processing plants are currently underutilized or closed, yet most of the plants have been equipped with new machinery and much of it remains unused. Preliminary negotiations with the Tanzanian government suggest that they are prepared to allow purchases of one or more of these plants or accept an operating lease with lease payments tied to the volume of available supplies of nuts. Two of these processing plants are located in areas where nut production can be increased with a low capital expenditure.

A fully equipped cashew processing plant with a 10,000-ton raw nut capacity would employ between 750 and 1,300 workers, and, although relatively labor intensive, the plants nevertheless utilize sophisticated equipment, particularly in the shelling process.

Preliminary cash flow projections indicate that this investment could be highly profitable. The internal rates of return are 38 percent and 87 percent depending on the purchase or lease structures arranged. Under the purchase option, capital costs would amount to about $1.0 million. The more attractive option, however, would be a lease with a purchase option which would allow the investor to maintain low capital costs while the factory is under the rehabilitation phase. The investors could then buy the factory when full capacity is achieved.

Exhibit IV contains additional examples of the kinds of projects the Fund may consider.

4.4 Realizing Investment Gain. The financial success of the Fund will depend on its ability to realize, or "cash out", in a convertible currency any appreciation in the value of its investment. In the U.S. or other advanced countries, adequate investment banking and capital markets facilities exist to permit investors routinely to sell securities. In sub-Saharan Africa, however, these facilities generally do not exist. Although improvement may be expected in the capital markets in some of the countries there, the Fund cannot rely today on the existence of such markets five to fifteen years from now when the Fund would want to cash out its various project investments. Additional methods, or "exit vehicles", must cover this risk. As an example, the Fund could acquire the right to put the securities to the issuer's owners, managers, or the issuer itself. In any event, the Fund will have to consider whether or not potential exit vehicles exist before investments are approved.

Upon the sale of the project investments for cash, the Fund intends to distribute substantially all the proceeds to the debt reserve and to the holders of the Guaranteed Notes and to the Partners, rather than to reinvest the proceeds. It is necessary to adopt this strategy because (a) OPIC expects that monies will be set aside for payment of the Guaranteed Notes in the fifteenth year (or possibly for pre-payments of these notes), (b) the General Partner expects to receive a percentage of net income as contemplated in its incentive compensation arrangement, and (c) the Limited Partners, which must pay Federal income tax on the transaction, probably would prefer to receive the funds with which that tax could be paid.

If the Fund is successful, its objectives can be perpetuated by extending its term with new financing or, alternatively, by creating one or more successor funds. OPIC expects the Fund will serve as a model for creating similar equity-oriented investment funds in the region.

5. ORGANIZATION OF THE FUND

5.1 The Partnership. The Fund will be a limited partnership organized under United States law. This form of organization, rather than a corporation, is typical for closed-end investment companies having a fixed term.

The day-to-day management of the Fund will be assigned to the General Partner, while the Limited Partners will remain passive investors, whose liability to third parties will be limited to the amount of their invested capital.

In addition, since each Partner, but not the partnership, is likely to be subject to taxation under the U.S. Internal Revenue Code, the Partners under certain circumstances may deduct from their own income their share of any Fund losses, whether from expenses of operations or from realized losses or write-downs in the Fund's investments. Alternatively, any realized net income of the Limited Partnership may be included in the Partners' incomes and becomes subject to taxation.

5.2 General Partner. Equator will be the General Partner. Equator's principal operating subsidiaries are Equator Bank, a merchant bank; Equator Trade Services Limited, a trading company; and Equator Advisory Services Limited, offering business and financial advisory services. Equator's investment in the Fund will be nominal; its compensation, including the reimbursement of its management expenses, will not be guaranteed by OPIC.

Founded ten years ago with $500,000 in capital, Equator at December 31, 1985, had $15 million in capital and retained earnings supporting $273 million in assets. They have been consistently profitable with net profits in 1985 exceeding $4 million and in 1986, $5 million.

The Equator group's only market is Africa where they provide financial, advisory, and trade services to governments and businesses. Among these services are market and project feasibility studies, arranging for the shipment of goods and the financing of trade and investment. In addition they advise clients on mergers, acquisitions, divestitures and joint ventures, organizational structure, and financial management and marketing strategies. They provide them with training programs where skills need to be improved.

Substantially all of Equator's stock is owned by The Hongkong and Shanghai Banking Corporation, headquartered in Hong Kong. Equator's senior management are also significant shareholders in Equator. The HongkongBank Group, the parent, at December 31, 1985, had assets of $70 billion with a net worth of $2.8 billion. It has nearly 50,000 employees in over 1000 offices in more than 50 countries. Marine Midland Bank, New York, is also a member of the HongkongBank Group.

5.3 Limited Partners. Through First Boston and with the active participation of Equator, OPIC intends to offer Limited Partnership Interests in the Fund to American business corporations. The target maximum amount will be $10 million.

The intent is to solicit this investment only from companies with a long-term interest in African economic growth and social improvement. The plan is to obtain between five and twenty Limited Partners, representing diverse business sectors, such as basic and high-tech industries, agribusiness, natural resources, consumer products, construction, and service industries. Each partner should be willing to designate appropriate senior officers as its representatives to participate in Fund-related business, including public relations activities organized to promote the Fund and the purposes for which it is founded

The offering will be made through an Offering Memorandum prepared by First Boston and approved by OPIC. As a private placement, the offering is exempt from the registration requirements of the Securities Act of 1933 and the Investment Company Act of 1940. First Boston will not underwrite the sale of the Limited Partnership Interests; rather, it will be done on a "best efforts" basis, and if the offering is successful the Fund will be obligated to pay First Boston a placement fee of 3.5 percent on the funds raised. Based on discussions with other institutions familiar with the fees normally associated with the offering of securities of this type, OPIC considers this cost to be reasonable.

Although the projections suggest the Fund will be profitable, it is unlikely that U.S. companies will invest in the Fund based solely on these financial projections. Rather, they will consider not only whether the Fund will be managed in a business-like way, making investments in accordance with the agreed-upon investment policy, but also whether the Fund's investments will demonstrate the participant's support for economic development in sub-Saharan Africa.

5.4 Management of The Fund. Equator will be the day-to-day Fund manager, while OPIC, as guarantor of the Fund's notes, will maintain overall approval rights of the Fund's operations. In particular, OPIC will retain the right to approve the terms and conditions of Equator's management agreement and the Fund's investments.

Equator will identify project opportunities, structure each transaction, and present to OPIC its recommendations for investment by the Fund. Equator will monitor the implementation of each project through reviews of budgets and forecasts and other means, including site visits and management consultations. If remedial action becomes necessary due to poor performance of one of the Fund's investments, Equator and OPIC will collaborate on the steps to be taken.

Equator will implement a marketing program in Africa and the United States to create an awareness of the activities of the Fund and to stimulate interest among U.S. and African businesses and entrepreneurs in calling on the Fund for investment capital.

Monitoring equity and quasi-equity investments is expected to require greater personnel resources than are usually necessary for monitoring secured debt investments. For this reason Equator, familiar with and with a presence in the African market, will bear the major responsibility of monitoring project investments. The management agreement will describe Equator's responsibilities, and OPIC may adjust them as necessary to meet changing conditions.

As compensation, Equator will receive an annual management fee plus a share of the net income as an incentive tied to the Fund's performance. Therefore, Equator will have an incentive to help maintain a healthy portfolio, because its compensation will be based in large part on the Fund's return on invested capital.

The Fund will invest surplus funds in eligible, investment grade securities under First Boston's management.

5.5 <u>The OPIC Approval Process</u>. OPIC and Equator will assure that investment opportunities for the Fund are screened for eligibility under established OPIC criteria and are analyzed not only for basic economic viability but for growth and subsequent sale at a suitable profit. While Equator will recommend investments for the Fund, OPIC will decide whether, and on what terms and conditions, the Fund will commit to any recommended investment. Under established procedures, OPIC's review will include such matters as are appropriate in deciding on the quality of the contemplated investment, its suitability under the Fund's investment objectives, and its eligibility under

OPIC's enabling statute and existing policies, particularly with regard to U.S. and developmental effects. Included will be judgments on environmental effects, performance requirements, employee health and welfare, and human and worker rights.

Following OPIC approval, the Fund Manager will prepare and execute investment commitment documents and upon satisfaction of agreed-upon conditions will disburse the funds. The Fund Manager will hold the instruments in project companies and maintain the necessary records and accounts.

5.6 Monitoring of Investments and Controls. The Fund Manager will monitor all project companies to assure fulfillment of performance objectives; and the Fund Manager will represent the Fund on the Boards of Directors of project companies when Board representation is the Fund's right and is desirable.

In the event a project company fails to meet its performance objectives, the Fund Manager, in consultation with OPIC, will take whatever remedial steps are possible and appropriate. Actions with major consequences, such as replacement of the project company's management, will require prior OPIC consent. Regularly, all project companies will provide the Fund with budgets as well as audits certified by independent accountants.

5.7 Audits of the Fund. The Fund will publish an Annual Report with audited financial statements by a leading independent accounting firm. In addition, quarterly reports will be available to the Partners and OPIC.

6. FINANCIAL ANALYSIS

6.1 Capitalization.

OPIC-Guaranteed Notes	$20,000,000
Partnership Interests	10,000,000
Total	$30,000,000

6.2 OPIC-Guaranteed Notes. The Fund will issue up to $20 million of notes with the entire principal amount due in a single payment up to fifteen years after issuance.

Interest on the Guaranteed Notes will be payable semi-annually. These notes will be the only debt of the Fund, although OPIC may approve short-term borrowings from time to time as cash flow requirements dictate. Redemption of the Guaranteed Notes prior to maturity is not contemplated.

The Fund will establish a debt reserve to pay the principal on the Guaranteed Notes when due. The debt reserve's source of monies will be current income from operations and proceeds from the sale of the Fund's project investments, and it will rank pari passu with the holders of the partnership interests. Consequently, only a portion of the funds available from earnings will be available for placement into the debt reserve, with the remainder distributed to the Partners or OPIC.

On the due date of the Guaranteed Notes, the Fund will be obligated to pay the remaining interest due on the notes and 100 percent of the principal. OPIC expects that the debt reserve will be sufficient to cover this obligation. In the event the debt reserve holds less than the required amount of principal and interest, OPIC, under its guaranty, would be obligated to provide the difference in U.S. dollars.

6.3 Basis for Projections. The following assumptions have been used in the financial projections shown in Exhibit IV:

Drawdown of funds. The Fund expects to issue the Limited Partnership Interests in 1987 and receive $10,000,000 with which to meet initial operating costs of $450,000 and to fund project investments. The amount raised may be less, depending on the success of this offering; and pending those expenditures, these funds will be placed in low risk, income-bearing obligations.

While the Fund expects to commit to project investments during 1987, the first funding of those commitments will occur in 1988. Consequently, on the assumed schedule for making project investments, the Fund will be able to defer until 1989 and 1990 the placement of the Guaranteed Notes.

The costs in fees and expenses associated with the offerings of the Limited Partnership Interests and the Guaranteed Notes are estimated at $350,000 and $100,000, respectively, plus an estimated $100,000 to cover the legal, printing, travel and other expenses related to the offerings. These expenses are amortized over the first five years of operations.

Costs of funds and expected income on investments in securities. First Boston estimates that the rate of interest payable on the Guaranteed Notes, if issued now, would be approximately 7.6 percent. With one exception, the other interest rates used in the projections relate to these notes, with the lesser yields on funds placed in the reserves reflecting a selection of somewhat more liquid securities. The exception, income from project investments at 9 percent, reflects Equator's opinion on the level of rates currently sustainable on quasi-equity income-producing securities.

The Fund's investment schedule. The first commitments on project investments should occur in 1987, with the funds flowing to projects in 1988 and thereafter. Assuming an average Fund investment of $1,000,000, to be fully invested by the end of 1990, the Fund must commit funds to about 30 projects and do so at the rate of twelve each year. This level of activity is consistent with the volume of qualified projects both OPIC and Equator expect and with the number of professional personnel available to manage the Fund.

The Fund's portfolio liquidation schedule. Equator, First Boston, and OPIC estimate that the Fund, during its fifteen-year life, will realize a capital gains return on 75 percent of its project investments. Twenty-five percent, then, will show realized losses or no realized gain during the Fund's fifteen-year life. Liquidations of investments should begin in 1992, five years after the initial investments, peak in the eighth year and be nominal or sporadic from the tenth year on.

The multiple, or realized gain, on project investments. The projections assume that some project investments will do very well while others will result in losses. Based on Equator's experience in sub-Saharan Africa and without projecting any truly extraordinary gain, OPIC anticipates that the average multiple gain on 75 percent of the portfolio of project investment will be 3.6; that is, for every $1,000,000 in investments, the Fund will realize $3,600,000 on sale or other liquidation of that investment. This average multiple assumes that (a) 10 percent of the portfolio will realize a multiple of six, (b) 60 percent, a multiple of four, and (c) 30 percent, a multiple of two.

Equator's management and incentive compensation arrangement. While the Africa Growth Fund is not a venture capital fund, the typical venture fund's approach to compensating management is being used here. Annually, Equator will receive sufficient funds to cover its budgeted operating expenses attributable to the Fund, plus a sum to provide a modest profit. As General Partner, Equator will share in net income, and, therefore, its total compensation will be tied to the Fund's profit performance. For these projections but subject to further negotiations, Equator's share has been assumed to be 10 percent of net income.

Provision for losses. While the projections assume that 25 percent of the project investments will realize no gain and a portion of realized gains will build a debt reserve to provide funds to retire the Guaranteed Notes, these projections also provide for a liquid reserve based on 5 percent of project investments.

The debt reserve. To provide adequate funds to retire the Guaranteed Notes at maturity, the projections include a debt reserve. It derives its monies from two sources: operating income and capital gains on the sales of project investments. The assumption in the projections is that 16.6 percent of those monies, beginning the first year of such sales, 1992, will be sufficient to retire the Guaranteed Notes at maturity.

Sharing of net income and capital gains. The split of profits among the Limited Partners, the General Partner, and OPIC has not been fully negotiated. For the purposes of these projections, however, a split has been assumed of 59.2 percent for the Limited Partners, 10 percent for the General Partner and 30.8 percent for OPIC, including 16.6 percent for the debt reserve.

Distributions. These projections assume that 100 percent of all income, operating income as well as realized capital gains, will be distributed each year to the Partners, the debt reserve, and OPIC beginning in the fifth year. In practice, however, some of the net income from operations will be reserved in the Fund to provide an additional resource to cover unexpected cash requirements.

6.4 Financial Projections and Return. The financial projections indicate a compound annual return to the Limited Partners averaging 22 percent per year. The return is based on the Fund's realizing capital gains as it sells off its investments starting in the fifth year of operations.

The projections also indicate adequate cash to pay all operating expenses and interest on the Guaranteed Notes. Sufficient cash is available to make payments to the debt reserve and retire the $20 million in notes in year 15 as well as provide OPIC with a cumulative cash return totalling $14,000,000.

The projections show a base case model which is likely to vary substantially in any given year. The table below shows the impact on the Fund should certain key assumptions be significantly different than projected. Both the projections and the sensitivity analysis shown below demonstrate that the Fund is highly dependent upon realizing capital gains. While cash from operations without capital gains should be sufficient to pay interest to the noteholders, retirement of the notes and a return to OPIC require the realization of capital gains.

	Equity Rate of Return	Portfolio Rate of Return	Average Interest Coverage
Base Case	24.9%	18.9%	5.0x
2.6 multiple	19.6%	12.2%	3.9x
1.6 multiple	12.1%	3.1%	2.7x
50% Liquidation	18.8%	10.6%	3.8x
Delayed Liquidation	21.7%	15.8%	5.0x

6.5 Risk Assessment. In keeping with the Fund's performance objective of acquiring assets offering the opportunity for significant capital appreciation, these investments in debt securities will carry equity options. They may be convertible to common stock, issued with options or warrants to purchase common stock, or issued with nominal-cost equity securities. The anticipated capital gain on these securities, of course, can be realized only if the securities are sold in exchange for U.S. dollars or other convertible currencies.

The Fund must regularly earn sufficient monies to meet its expenses, including interest payable to the holders of the Guaranteed Notes and the Fund Manager's annual fee including expenses. The Fund's ability to meet these costs at a profit will depend on a number of factors, including the following:

32

(a) Whether the Fund will be offered or be able to develop a sufficient number of suitable investment opportunities so that its assets will be fully committed during the first thirty-six months of operations;

(b) Whether the Fund will undergo periods of illiquidity if project companies fail to meet their obligations to pay interest in a timely fashion, either as a result of a shortfall in their own cash flow or as a result of their inability to convert their income into U.S. dollars or other currencies the Fund could use; and

(c) Whether "exit vehicles" in fact materialize when the Fund decides to cash out its investment and whether the sale represents a gain.

In addition to these factors which will directly affect the Fund's ability to meet its obligations, there are others that could indirectly affect the Fund's solvency:

(a) Whether the compensation the Fund expects to receive from the entire, diversified portfolio will be sufficient to compensate for the unsecured equity risks the Fund will assume;

(b) Whether the inclusion of restructured or "privatized" companies in the Fund's portfolio will drain personnel time which the Fund Manager could devote to more productive activities; and

(c) Whether Equator, as Fund Manager, will perform as expected and, if not, whether a suitable replacement can be identified.

Finally, political events in sub-Saharan Africa, particularly the Republic of South Africa, are extraordinarily difficult to predict. This fact alone causes companies, particularly U.S. companies which have little experience in Africa, to postpone key investment decisions. A more violent upheaval in South Africa would set back private investment severely in the southern portion of the continent, probably limiting the Fund's market to other regions. This smaller market may be insufficient to support the level of investment the Fund must sustain to maintain profitability.

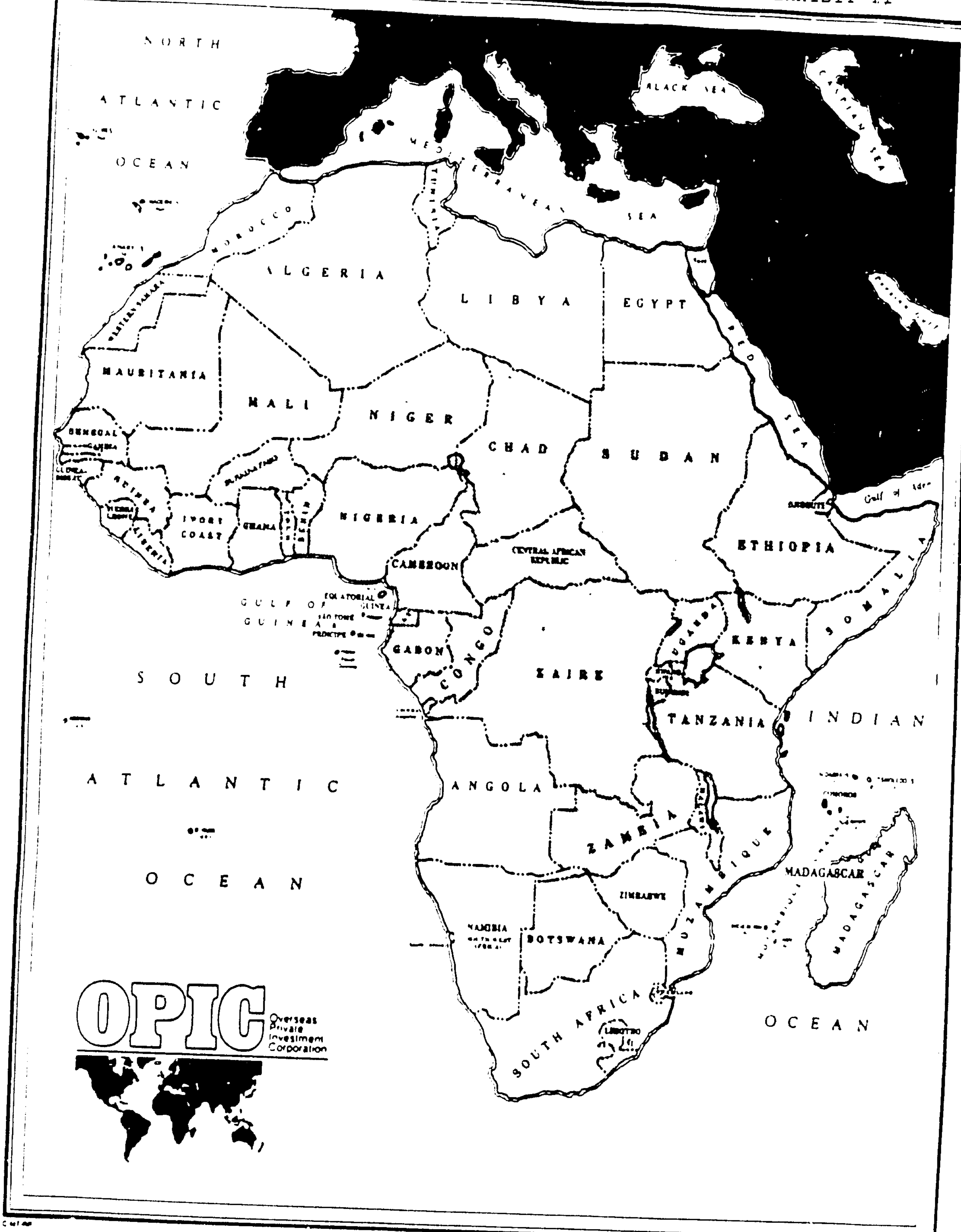
The Africa Growth Fund will face substantial risks, probably greater than would be faced in any other region of the developing world. OPIC believes, however, that these risks are acceptable, because the potential for significant development and financial reward is substantial. Moreover, the combined experience and resources of OPIC and Equator are sufficient to be able to manage the risks effectively.

EXHIBIT I

Countries and areas in Africa
where the U.S. Government has concluded
agreements covering OPIC programs.

Benin
Botswana
Burkina Faso
Burundi
Cameroon
Cape Verde
Central African Republic
Chad
Congo, People's Republic
Djibouti
Equatorial Guinea
Ethiopia
Gabon
The Gambia
Ghana
Guinea
Guinea Bissau
Ivory Coast
Kenya
Lesotho
Liberia
Madagascar
Malawi
Mali
Mauritania
Mauritius
Mozambique
Niger
Nigeria
Rwanda
Senegal
Sierra Leone
Somalia
Sudan
Swaziland
Tanzania
Togo
Uganda
Zaire
Zambia

EXHIBIT II


NORTH
ATLANTIC
OCEAN
BLACK SEA
MEDITERRANEAN SEA
MOROCCO
ALGERIA
TUNISIA
LIBYA
EGYPT
RED SEA
MAURITANIA
MALI
NIGER
CHAD
SUDAN
SENEGAL
GAMBIA
GUINEA
SIERRA LEONE
LIBERIA
IVORY COAST
GHANA
BENIN
NIGERIA
CENTRAL AFRICAN REPUBLIC
ETHIOPIA
DJIBOUTI
Gulf of Aden
CAMEROON
EQUATORIAL GUINEA
GULF OF GUINEA
SAO TOME & PRINCIPE
GABON
CONGO
ZAIRE
UGANDA
KENYA
SOMALIA
RWANDA
BURUNDI
TANZANIA
INDIAN
SOUTH
ATLANTIC
OCEAN
ANGOLA
ZAMBIA
MALAWI
MOZAMBIQUE
ZIMBABWE
NAMIBIA
BOTSWANA
SOUTH AFRICA
LESOTHO
MADAGASCAR
OCEAN
OPIC
Overseas Private Investment Corporation

Additional Examples of Projects Identified by Equator Which the Fund may Consider

1) Cameroon: Poultry project.
The development of a poultry project which would include a breeding unit, hatcheries, grow-out areas and a processing plant. Total capital cost is estimated at $6 million with $1 million additional equity required.

2) Cameroon: Parastatal privatization.
Societe Nationale d'Investissement has recently announced that its equity in 62 companies will be sold to private investors in the next five years.

3) Cote d'Ivoire: Gold mining.
A well-studied gold mining project in the north of Cote d'Ivoire with relatively low capital requirements of $2.5 million, including an equity shortfall of about $1 million.

4) Cote d'Ivoire: Fruit processing facility.
The rehabilitation of a fruit processing operation for high value products and non-alcoholic wine. Valued at $3 million, it requires $.5 million in outside equity.

5) Gabon: Timber harvesting.
An integrated project for a total cost of $8 million with $1 million outside equity alongside local capital.

6) Ghana: Lobster tail export.
A private company has collection rights for lobster tails for export to Europe. Total project cost initially is $110,000 with outside equity needed at $40,000.

7) Ghana: Timber export.
A local private company owns a concession for the harvesting of hardwoods for export. Financing is required for a sawmill and new equipment. Total cost is $4.5 million with additional investment needed at $.5 million.

8) Guinea: Commercial fishery.
The development by a U.S. private investor and the Government of Guinea of a commercial lobster and shrimp fishery and processing operation for export. Total project cost is $6 million with needed equity investment of $1 million.

9) Kenya: Hotel expansion.
Expansion from a 30- to a 50-bed hotel in Lamu, a prime tourist area. Cost at $2 million, outside equity needed at $.8 million.

10) Kenya: Hotel construction.
Construction of a five-star hotel complex in downtown Nairobi. Total project cost of $50 million with equity of $2.5 million being needed to complete financing.

11) Kenya: Irrigated agriculture.
Production of high value products for export. Total cost at $5 million, potential equity investor needed for $1.5 million.

12) Liberia: Shrimp aquaculture development.
A Liberian privately sponsored development of a shrimp farming facility with U.S. technology and equipment. Total project cost is $8 million with $1.5 million in additional equity required from outside sources.

13) Liberia: Leveraged buy-out of rubber plantation.
The proposed buy-out of an existing rubber facility by the U.S./Liberian management group of a U.S. wholly-owned rubber subsidiary. The acquisition and expansion was priced at $12 million with $2 million needed in outside equity.

14) <u>Nigeria</u>: Sugar estate.
Development of a 4,000 acre sugar plantation to supply sugar to local industrial users. Total cost is $60 million with $5 million required in additional equity investment.

15) <u>Mozambique</u>: Irrigated agricultural project.
The development of an intensive irrigated agricultural project, primarily using blocked funds. The total project cost is $30 million which will need $4 million in additional equity alongside those funds supplied by the U.S. investor.

16) <u>Tanzania</u>: Rehabilitation of a chili pepper farm and other agribusiness.
Privatization of estate holdings by the Tanzanian National Agriculture and Food Corporation has resulted in many opportunities for private development. The chili pepper farm will supply the growing gourmet demand for chili peppers in Europe.

17) <u>Togo</u>: Rehabilitation of a steel products plant.
The rehabilitation and lease of steel products manufacturing facilities from the Government at low capital costs. Required $.5 million in additional foreign equity.

18) <u>Zambia</u>: Parastatal restructuring.
The major state enterprise holding company of Zambia is in the process of restructuring and rationalizing thirty-three manufacturing enterprises. These firms will have new management plans or will be sold to private investors.

19) <u>Zambia</u>: Cotton ginnery.
The establishment of a cotton ginnery with $.5 million outside equity required.

Financial Projection of The Africa Growth Fund

ASSUMPTIONS

Average Investment Multiple	3.6
Investment Yield Rate	9.00%
Securities Yield Rate	7.10%
Note Reserve Yield Rate	8.00%
Debt Issuance Expense Rate	0.63%
Note Interest Rate	8.25%
Debt Guaranty Fee Rate	1.00%
Money Management Fee Rate	0.20%

SCHEDULES (000's)

YEAR	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Equity	$3,500	$3,500	$3,000	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Investments Targeted	0	6,000	12,000	12,000	0	0	0	0	0	0	0	0	0	0	0
Divestitures	0	0	0	0	1,125	3,375	4,500	5,625	3,375	1,125	1,125	563	563	563	563
Debt Reserve Fund Payments	0	0	0	0	1,000	1,500	2,000	2,500	2,000	1,500	1,500	250	250	250	250

EXHIBIT IV
Page 1 of 4

Financial Projection of The Africa Growth Fund

INCOME STATEMENT (000's) YEAR	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Income															
Long-Term Investment Yield	$0	$270	$1,080	$2,144	$2,618	$2,418	$2,068	$1,618	$1,218	$1,017	$917	$842	$792	$742	$692
Permissable Investment Yield	240	147	2	0	0	0	0	0	0	0	0	0	0	0	0
Note Reserve Fund Yield	0	0	0	0	37	144	303	518	751	962	1,170	1,341	1,476	1,578	1,610
Gains on Divestitures	0	0	0	0	2,891	8,673	11,564	14,454	8,673	2,891	2,891	1,445	1,445	1,445	1,445
Total	$240	$417	$1,082	$2,144	$5,546	$11,235	$13,934	$16,590	$10,641	$4,871	$4,978	$3,629	$3,714	$3,765	$3,748
Expenses															
Note Interest	$0	$0	$344	$1,169	$1,650	$1,650	$1,650	$1,650	$1,650	$1,650	$1,650	$1,650	$1,650	$1,650	$1,650
Fund Management Fee	750	750	750	750	727	672	574	449	338	283	255	234	220	206	192
Money Management Fee	7	4	1	0	1	4	8	13	19	24	29	33	37	39	40
Debt Guaranty Fee	0	0	42	142	195	181	162	135	106	80	55	33	17	4	0
Debt Issuance Fees	0	0	125	102	0	0	0	0	0	0	0	0	0	0	0
Intangible Amortization	50	50	50	50	50	0	0	0	0	0	0	0	0	0	0
Total	$807	$804	$1,312	$2,213	$2,623	$2,507	$2,394	$2,247	$2,113	$2,037	$1,988	$1,951	$1,923	$1,899	$1,882
Net Income	($567)	($387)	($229)	($69)	$2,923	$8,728	$11,540	$14,343	$8,528	$2,834	$2,990	$1,678	$1,791	$1,866	$1,865

Exhibit IV
Page 2 of 4

Financial Projection of The Africa Growth Fund

CASH FLOW STATEMENT (000's) YEAR	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	Total
Net Income	($567)	($387)	($229)	($69)	$2,923	$8,728	$11,540	$14,343	$8,528	$2,834	$2,990	$1,678	$1,791	$1,866	$1,865	
Adjustments to Net Income																
Non-cash Expenses	50	50	50	50	50	0	0	0	0	0	0	0	0	0	0	
(Note Reserve Yield)	0	0	0	0	(37)	(144)	(303)	(518)	(751)	(962)	(1,170)	(1,341)	(1,476)	(798)	0	
Organizational Expenses	(250)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
AID Contribution	767	337	179	19	0	0	0	0	0	0	0	0	0	0	0	
Net Operating Cash Flow	$0	$0	$0	$0	$2,936	$8,584	$11,236	$13,825	$7,777	$1,872	$1,820	$337	$314	$1,068	$1,865	1,303
Financial Cash Flow																
Equity Issuance	$3,728	$3,378	$2,895	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	
Equity Issuance Expense	(350)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
(Investments)Divestitures	0	(6,000)	(12,000)	(11,650)	1,112	3,336	4,448	5,559	3,336	1,112	1,112	556	556	556	556	
(Note Reserve Payments)	0	0	0	0	(1,000)	(1,500)	(2,000)	(2,500)	(2,000)	(1,500)	(1,500)	(250)	(250)	0	0	
Securities(Purchases)Sales	(3,378)	2,622	755	0	0	0	0	0	0	0	0	0	0	0	0	
Note Issuance	0	0	8,350	11,650	0	0	0	0	0	0	0	0	0	0	0	
Net Financial Cash Flow	$0	$0	$0	$0	$112	$1,836	$2,448	$3,059	$1,336	($388)	($388)	$306	$306	$556	$556	
Available Cash Flow	$0	$0	$0	$0	$3,048	$10,420	$13,685	$16,884	$9,113	$1,483	$1,432	$643	$620	$1,624	$2,421	

EXHIBIT IV
Page 3 of 4

Financial Projection of The Africa Growth Fund

BALANCE SHEET (000's) YEAR	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Assets															
Permissable Investments	$3,378	$755	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Long-Term Investments	0	6,000	18,000	29,650	28,538	25,203	20,755	15,196	11,860	10,748	9,636	9,080	8,524	7,968	7,413
Note Reserve Fund	0	0	0	0	1,037	2,680	4,983	8,001	10,752	13,215	15,884	17,475	19,202	20,000	20,000
Intangibles	200	150	100	50	0	0	0	0	0	0	0	0	0	0	0
Total	$3,578	$6,905	$18,100	$29,700	$29,575	$27,883	$25,738	$23,197	$22,612	$23,963	$25,521	$26,556	$27,726	$27,968	$27,412
Liabilities and Equity															
Notes	$0	$0	$8,350	$20,000	$20,000	$20,000	$20,000	$20,000	$20,000	$20,000	$20,000	$20,000	$20,000	$20,000	$20,000
Partnership Capital	3,378	6,755	9,650	9,650	9,525	7,833	5,688	3,147	2,562	2,562	2,562	2,562	2,562	2,562	2,006
Retained Earnings	200	150	100	50	50	50	50	50	50	1,400	2,958	3,993	5,164	5,406	5,406
Total	$3,578	$6,905	$18,100	$29,700	$29,575	$27,883	$25,739	$23,197	$22,612	$23,963	$25,521	$26,556	$27,726	$27,968	$27,412

PROFITABILITY ANALYSIS (000's) YEAR	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	TOTAL
Available Cash Flow																
Distribution to Investors (Investor IRR = 31.3%)	$0	$0	$0	$0	$3,048	$10,073	$11,613	$13,507	$7,290	$1,187	$1,145	$514	$496	$1,299	$1,937	$52,110
Fund Manager Fee	0	0	0	0	0	260	1,554	2,533	1,367	223	215	96	93	244	363	6,947
OPIC Fee	0	0	0	0	0	87	518	844	456	74	72	32	31	81	121	2,316
Total Available Cash Flow	$0	$0	$0	$0	$3,048	$10,420	$13,685	$16,884	$9,113	$1,483	$1,432	$643	$620	$1,624	$2,421	$61,373

ATTACHMENT E

OPIC

1615 M Street, N.W.
Washington, D.C. 20527
(202) 457-7200
Telex 440227 OPIC UI

June 21, 1988

Mr. Barry Burnett
AFR/PD/SWAP
Agency for International Development
New State Department Building
Washington, D.C. 20023

Re: Africa Growth Fund

Dear Barry:

Now that we have completed our Citicorp arrangements and the new marketing plan for soliciting corporate investors in the Africa Growth Fund, we are ready to conclude the documents for the A.I.D. commitment and allocation of funds. Since we expect to launch the Fund and to begin utilizing the A.I.D. funding September first, we are prepared to work with you as needed to complete the process as soon as possible.

Therefore, as requested I enclose a copy of the memorandum of January 29, 1987, to our Board of Directors presenting our proposed commitment to The Africa Growth Fund, L.P. The Board approved the proposal unanimously. Since then, however, we have updated the proposal reflecting the passage of time and our replacing First Boston as the adviser with Citicorp Investment Bank. The purposes of the Fund, its structure, financial plan, and management, and OPIC's supervisory role and responsibilities with respect to the Fund's operations and investment decisions remain unchanged. I would like to bring to your attention how this updating affects the content of the Board memorandum.

Citicorp, unlike its predecessor, First Boston, has committed to invest $1 million in the Fund, and they will act as the Fund's agent for the placement of the limited partnership interests, which will represent the Fund's equity capital. They will also structure, underwrite, and place the Fund's term notes, which will carry the OPIC full guaranty of repayment.

The only change in fees will be an increase of 1/8 of 1% in the debt placement fee, payable by the Fund from the proceeds of the placement, amounting to $25,000 on the placement of $20 million. The total fee of 5/8 of 1% is in line with the results of our own inquiry into the range of fees applicable to a placement of the kind contemplated.

The budget for organizational expenses has risen to $250,000, reflecting added legal, travel, and other costs due to the passage of time and our changing the placement agent and the securities offering memorandum. In addition the interest rate expected on the OPIC-guaranteed notes has gone to 8.25% (which is based on an historical average) with investment income earned in the U.S. market adjusted to remain consistent with that cost. At the same time we have slightly broadened the range of eligible temporary investments to include local securities when levels of safety and return are acceptable and capital markets development can be advanced. As might be expected, the commencement of the funding of project investments has slipped to 1989, and similarly the placement of the OPIC-guaranteed notes has slipped to 1990-91.

Incorporating these changes, we have updated the financial projections in the enclosed new Exhibit IV to the Board memorandum. As a result of these updated projections we have recalculated certain of the ratios that appear in sections 1.7, 6.3, and 6.4 of the memorandum. These recalculations are as follows:

Investor internal rate of return	25.2%
Average interest coverage (by operating revenue)	4.3X
Average return on assets (net income/assets)	16.5%

Further, the debt service reserve will be funded according to the new schedule on page 1 of Exhibit IV. Then, to improve the attractiveness of investment in the Fund we have decided to accelerate the investors' returns and delay the returns payable to Equator and to OPIC. To achieve this we now provide that 100% of the distributions of cash realized on investments will be allocated to the equity holders until such time as they have received an amount equal to their original investment. Thereafter, until they have achieved a rate of return on their investments of 15%, they will receive 90% of distributions, and 80% thereafter. At all times, the remaining cash available for distribution will be allocated to Equator and to OPIC and in a 75:25 ratio.

Additionally, the following sensitivity analysis has been undertaken to replace the one contained in the memorandum on page 24:

	Investor Return	Portfolio Return	Interest Coverage
Base Case (3.6 multiple, 75% liquidation)	25.2%	19.9%	4.3X
Multiple of 2.6	18.7%	14.5%	3.3X
Multiple of 1.6	8.8%	6.9%	2.2X
50% liquidation	17.8%	15.3%	3.6X

Citicorp Investment Bank's marketing program is just starting (although they have already obtained one new commitment), and we expect to meet your basic requirement of $3.5 million in investor commitments soon, with the necessary corporate and A.I.D. funding in hand by September first. Consequently, we propose that as soon as possible A.I.D. and OPIC complete the Memorandum of Understanding covering the intended allocation of funds.

Please telephone either me (457-7105) or my colleague Michael ter Maat (457-7177) with any questions you may have regarding the structure or projections of the Fund. I can also set up any meetings you or your colleagues would like to have with either Citicorp or Equator officers.

Sincerely,

Graham Williams

5C(2) - PROJECT CHECKLIST

Listed below are statutory criteria applicable to projects. This section is divided into two parts. Part A includes criteria applicable to all projects. Part B applies to projects funded from specific sources only: B(1) applies to all projects funded with Development Assistance; B(2) applies to projects funded with Development Assistance loans; and B(3) applies to projects funded from ESF.

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

A. GENERAL CRITERIA FOR PROJECT

1. FY 1988 Continuing Resolution Sec. 523; FAA Sec. 634A. If money is sought to obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified.	Yes.
2. FAA Sec. 611(a)(1). Prior to an obligation in excess of $500,000, will there be (a) engineering, financial or other plans necessary to carry out the assistance, and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?	Yes.
3. FAA Sec. 611(a)(2). If legislative action is required within recipient country, what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance?	N/A.

4. FAA Sec. 611(b); FY 1988 Continuing Resolution Sec. 501. If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See A.I.D. Handbook 3 for guidelines.)

N/A.

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

N/A.

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

This is a regional project.

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

The project will provide equity financing for sound investments in the private sector and is expected to: increas[e] both domestic and international trade; foster private initiative and competition and, through association with U.S. firms, improve technical efficiency.

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

One third of the capital for the project is derived from equity investments provided by U.S. private firms. Such investments are desig[n]ed to draw private U.S. participation directly into Africa' growth and developmen[t]

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

N/A.

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

N/A.

11. FY 1988 Continuing Resolution Sec. 521. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?

The Fund will avoid investments which could cause substantial injury to U.S. producers.

12. FY 1988 Continuing Resolution Sec. 553. Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel?

No.

13. FAA Sec. 119(g)(4)-(6). Will the assistance (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other wildlife habitats; (c) support efforts to identify and survey ecosystems in recipient countries worthy of protection; or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas?

N/A.

14. FAA 121(d). If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (either dollars or local currency generated therefrom)?

N/A.

15. FY 1988 Continuing Resolution. If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government?

N/A.

16. FY Continuing Resolution Sec. 541. If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.?

N/A.

17. FY 1988 Continuing Resolution Sec. 514. If funds are being obligated under an appropriation account to which they were not appropriated, has prior approval of the Appropriations Committees of Congress been obtained?

N/A.

18. FY Continuing Resolution Sec. 515. If deob/reob authority is sought to be exercised in the provision of assistance, are the funds being obligated for the same general purpose, and for countries within the same general region as originally obligated, and have the Appropriations Committees of both Houses of Congress been properly notified?

N/A.

19. State Authorization Sec. 139 (as interpreted by conference report). Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision).

The Memorandum of Understanding will be provided to the appropriate State/A.I.D. offices following signature.

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FY 1988 Continuing Resolution Sec. 552 (as interpreted by conference report). If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training), are such activities (a) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States, where the export would lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S. exporters of a similar agricultural commodity; or (b) in support of research that is intended primarily to benefit U.S. producers?

N/A.

b. FAA Secs. 102(b), 111, 113, 281(a). Describe extent to which activity will (a) effectively involve the poor in development by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, dispersing investment from cities to small towns and rural areas, and

The investments under the Fund will generate employment opportunities promote the development of forward and backward linkages, identify appropriate technology in accordance with factor endowments, and stimulate the growth of financial markets.

insuring wide participation of the poor in the benefits of development on a sustained basis, using appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life, and otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries.

c. FAA Secs. 103, 103A, 104, 105, 106, 120-21. Does the project fit the criteria for the source of funds (functional account) being used? — Yes.

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

e. FAA Secs. 110, 124(d). Will the recipient country provide at least 25 percent of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)? — N/A.

f. FAA Sec. 128(b). If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority? — Yes.

g. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civil education and training in skills required for effective participation in governmental processes essential to self-government.

By investing in sound private sector activities, the project will help individuals, firms and host countries to realize their potential The management of participating firms will be utilized in making investment decisions. Skill levels will be improved at all levels in the targeted firms.

h. FY 1988 Continuing Resolution Sec. 538. Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions?

No.

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

No.

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

No.

i. FY 1988 Continuing Resolution. Is the assistance being made available to any organization or program which has been determined to support or participate in the management of a program of coercive abortion or involuntary sterilization?

No.

If assistance is from the population functional account, are any of the funds to be made available to voluntary family planning projects which do not offer, either directly or through referral to or information about access to, a broad range of family planning methods and services?

No.

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

Yes.

k. FY 1988 Continuing Resolution. What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, colleges and universities having a student body in which more than 20 percent of the students are Hispanic Americans, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)?

A.I.D. funds will be used to finance only the operating expenses of the Africa Growth Fund.

l. FAA Sec. 118(c). Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16? Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest extent feasible: (a) stress the importance of conserving and sustainably managing forest resources; (b) support activities which offer employment and income alternatives to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas; (c) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management; (d) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices; (e) help conserve forests which have not yet been degraded by helping to increase production on lands already cleared

Yes.

or degraded; (f) conserve forested watersheds and rehabilitate those which have been deforested; (g) support training, research, and other actions which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing; (h) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation; (i) conserve biological diversity in forest areas by supporting efforts to identify, establish, and maintain a representative network of protected tropical forest ecosystems on a worldwide basis, by making the establishment of protected areas a condition of support for activities involving forest clearance or degradation, and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate protected areas; (j) seek to increase the awareness of U.S. government agencies and other donors of the immediate and long-term value of tropical forests; and (k)/utilize the resources and abilities of all relevant U.S. government agencies?

m. <u>FAA Sec. 118(c)(13)</u>. If the assistance will support a program or project significantly affecting tropical forests (including projects involving the planting of exotic plant species), will the program or project (a) be based upon careful analysis of the alternatives available to achieve the best sustainable use of the land, and (b)/take full account of the environmental impacts of the proposed activities on biological diversity? — Yes.

n. FAA Sec. 118(c)(14). Will assistance be used for (a) the procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems; or (b) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas?

No.

o. FAA Sec. 118(c)(15). Will assistance be used for (a) activities which would result in the conversion of forest lands to the rearing of livestock; (b) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undegraded forest lands; (c) the colonization of forest lands; or (d) the construction of dams or other water control structures which flood relatively undegraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development?

No.

p. FY 1988 Continuing Resolution If assistance will come from the Sub-Saharan Africa DA account, is it (a) to be used to help the poor majority in Sub-Saharan Africa through a process of long-term development and economic growth that is equitable, participatory, environmentally sustainable, and self-reliant; (b) being provided in

(a) Yes.
(b) Yes.
(c) N/A.
(d) Yes.
(e) Yes.

accordance with the policies contained in section 102 of the FAA; (c) being provided, when conistent with the objectives of such assistance, through African, United States and other PVOs that have demonstrated effectiveness in the promotion of local grassroots activities on behalf of long-term development in Sub-Saharan Africa; (d) being used to help overcome shorter-term constraints to long-term development, to promote reform of sectoral economic policies, to support the critical sector priorities of agricultural production and natural resources, health, voluntary family planning services, education, and income generating opportunities, to bring about appropriate sectoral restructuring of the Sub-Saharan African economies, to support reform in public administration and finances and to establish a favorable environment for individual enterprise and self-sustaining development, and to take into account, in assisted policy reforms, the need to protect vulnerable groups; (e) being used to increase agricultural production in ways that protect and restore the natural resource base, especially food production, to maintain and improve basic transportation and communication networks, to maintain and restore the natural resource base in ways that increase agricultural production, to improve health conditions with special emphasis on meeting the health needs of mothers and children, including the establishment of self-sustaining primary health care systems that give priority to preventive care, to provide increased access to voluntary family planning services, to improve basic literacy and mathematics especially to those outside the formal educational system and to improve primary education, and to develop income-generating opportunities for the unemployed and underemployed in urban and rural areas?

2. Development Assistance Project Criteria (Loans Only) N/A.

a. FAA Sec. 122(b). Information and conclusion on capacity of the country to repay the loan at a reasonable rate of interest.

b. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20 percent of the enterprise's annual production during the life of the loan, or has the requirement to enter into such an agreement been waived by the President because of a national security interest?

c. FY 1988 Continuing Resolution. If for a loan to a private sector institution from funds made available to carry out the provisions of FAA Sections 103 through 106, will loan be provided, to the maximum extent practicable, at or near the prevailing interest rate paid on Treasury obligations of similar maturity at the time of obligating such funds?

d. FAA Sec. 122(b). Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities?

3. Economic Support Fund Project Criteria N/A.

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

b. FAA Sec. 531(e). Will this assistance be used for military or paramilitary purposes?

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