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Annual Report

of the

Private Sector Revolving Fund

for Fiscal Year

1988

Private Sector Revolving Fund

Bureau for Private Enterprise

Agency for International Development

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September 30, 1988

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

ASSISTANT
ADMINISTRATOR

LETTER FROM THE ASSISTANT ADMINISTRATOR BUREAU FOR PRIVATE ENTERPRISE

By establishing the Private Sector Revolving Fund in 1983, Congress gave the Agency for International Development (A.I.D.) a highly visible and flexible vehicle for mobilizing private capital for development.

In the subsequent five years, the Revolving Fund has helped create jobs, build new industries and boost local incomes in developing countries. It has done this largely by leading Third World commercial banks and other private institutions to borrowers often without access to conventional financial markets: small and medium-sized entrepreneurs. A.I.D.'s overseas missions have endorsed this approach by putting their own funds in Revolving Fund projects in increasing amounts.

In September 1988, President Reagan signed legislation to augment the Revolving Fund with a new guarantee authority. With a stroke of the pen, the Fund's impact has been at least quadrupled. Thus, this fifth annual report to Congress finds the Fund on the threshold of a new era, with its ability greatly enhanced to influence missions and Third World financial sectors and to leverage scarce A.I.D. funds. At the same time, we will continue to follow the core guidelines laid down by Congress -- to single out small businesses for attention, to lend at market rates, and to help integrate local institutions into our development objectives.

We are especially proud of the innovative aspects of the Revolving Fund. Our investment staff works continually to develop fresh approaches. Several new mechanisms will be field tested in 1989. Our aim is to constantly improve the Fund's management and working instruments so it can meet new challenges while maintaining its position of leadership in the Agency's private enterprise initiative.

Neal Peden
Assistant Administrator
Bureau for Private Enterprise

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Annual Report of the Private Sector Revolving Fund, Bureau For Private Enterprise, Agency for International Development, covering Fiscal Year 1988.

When Congress established the Private Sector Revolving Fund in 1983, the Agency for International Development's commitment to strengthen the private sector in developing countries took an important step forward.

The Revolving Fund projects are designed to strengthen indigenous economies through direct assistance to the private sector. Working with and through USAID Missions in developing countries, the Revolving Fund has provided loan guarantees to Third World financial institutions and, in some cases, direct loans to private businesses to meet this goal.

"In many industrialized countries, and in Third World countries as well, deregulation is the order of the day. Instead of looking at private enterprise as the adversary, many governments now see it as their best hope for progress and development."

**President Ronald Reagan
(Remarks at the Annual Meeting of the Boards of Governors, September 29, 1987)**

A Fund to Promote Private Sector Development

There is tremendous potential for job creation, economic diversification and socially responsive business development within the private sector. Typically, local businesses are both more sensitive to market pressures and more flexible in responding to them than government agencies. However, the growth of the private sector in developing countries has been handicapped for a number of reasons: lack of funds for innovation and expansion, inefficient capital markets, government policies which restrain the flow of credit, and lack of entrepreneurial experience.

The goal of the Private Sector Revolving Fund is to demonstrate that assistance to the private sector is one of the most effective ways to promote development in the Third World. To implement this strategy, Revolving Fund projects seek to encourage commercial lenders in the developing world to extend market rate financing to micro, small and medium-sized businesses. The projects are aimed at creating jobs, building new industries, developing new markets and improving the balance of payments. The Revolving Fund projects also seek to create

"We continue to believe that private enterprise is the most effective means for fostering sound economic development."

**President Ronald Reagan
(Meeting with President Ahmadou Ahidjo of Cameroon, July 26, 1982)**

partnerships between the private sectors of the United States and developing countries to foster trade and growth for both partners.

Authorizing Legislation

The Revolving Fund was created in 1983 when Congress enacted Section 108 of the Foreign Assistance Act of 1961, as amended. Responsibility for the new Revolving Fund was vested in the Bureau for Private Enterprise. Under the legislation, interest, fees and repayments of principal are redeposited in the Revolving Fund to finance new projects.

"The Congress finds that the development of private enterprise, including cooperatives, is a vital factor in the stable growth of developing countries and in the development and stability of a free, open and equitable international economic system. It is therefore in the best interest of the United States to assist the development of the private sector in developing countries and to engage the United States private sector in that process."

The Private Sector Revolving Fund Section 108 of the Foreign Assistance Act of 1961, as amended.

Objectives

As required by the legislation, Revolving Fund projects are designed to:

- Stimulate the private sector in developing countries by assisting private enterprise;
- Create innovative financing mechanisms to serve as models for the private sector development efforts of local USAID Missions;
- Strengthen local, private financial institutions by helping them develop new markets and learn new lending techniques; and
- Involve the United States private sector in Third World development.

Management and Staffing

With a staff recruited primarily from the United States private sector, the Revolving Fund provides unique international banking and business expertise with A.I.D. and serves as a center of international investment

advice and training for the Agency.

The Revolving Fund is managed by the Office of Investment of A.I.D.'s Bureau for Private Enterprise. Its six full-time professionals include the director, four investment officers and one implementation/project monitoring officer. Investment officers identify, screen, analyze and design projects. They are also responsible for coordination and consultation with field missions.

"I know of no other program of this kind. Businessmen are left with precious few options for borrowing working capital... The value of loan [guarantee] programs like this cannot be underestimated. Without the A.I.D. loan [guarantee] my business would have become completely stagnated."

Porfirio Peralta, President, Rattan Dominicano, whose business has grown from two employees to 130 on sales of $1.4 million.

Mechanisms

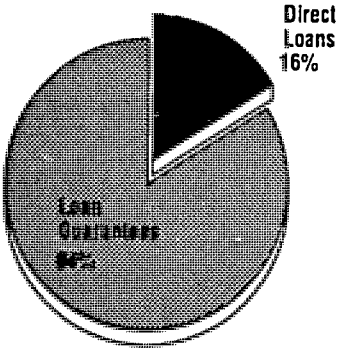
In many developing countries, the absence of a stable business environment often creates serious constraints to the growth of private enterprise. Currency devaluations, volatile inflation rates and political instability are the hallmark of many third world economies.

Because of the uncertain economic climate, banks in developing countries tend to be cautious lenders. As a result, many financially viable enterprises are foreclosed from the formal credit markets because they lack a proven credit record, adequate collateral or political connections.

The Revolving Fund has attempted to alter this pattern through a variety of financing mechanisms. These include:

- Guarantee mechanisms to increase the flow of credit to small businesses; and
- Direct lending to business ventures and joint project lending with corresponding local banks.

PROJECT STRATEGIES



Muebles Nacionales Diversos
Banco de Desarrollo Finade, S.A.,
Dominican Republic
1984 Revolving Fund
Loan Guarantee

Against the backdrop of tropical Santo Domingo, visitors are surprised to see ornate Victorian furnishings displayed at Lily Muebles, the showroom of Muebles Nacionales Diversos.

Importing 90 percent of the wood from the United States, Luis Reyes started the company with his own money. He increased sales significantly with his innovative customer financing plan, now copied by other furniture dealers in the area.

A $132,000 loan guaranteed under the Revolving Fund program helped Luis build his shop, which creates high quality furniture in wood, rattan and lacquer and employs 189 people.

Luis notes, "There is no financing available here. The lack of available financing is what holds [us] back. What we need are more credit programs like the Revolving Fund [credit guarantee program] to get the working capital we need."

In its first years the Revolving Fund focused on creating innovative financing mechanisms, and several new financing mechanisms were developed. The Revolving Fund has now created streamlined model programs that USAID Missions can replicate.

Loan guarantees have proven to be a particularly effective mechanism for two reasons: first, with a guarantee there is no foreign exchange risk for the local financial institution as there would be if A.I.D. lent dollars directly; and second, a guarantee permits the Revolving Fund to leverage its available funds effectively.

Because Congress recognized the effectiveness of this mechanism, it recently enacted new guarantee authority under the Revolving Fund. This will permit the Bureau for Private Enterprise to issue guarantees with a reserve against losses equal to 25 percent of the guarantees outstanding and will significantly increase the amount of lending the Revolving Fund can leverage.

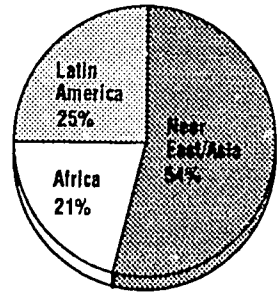
At the end of its first five years of operation, the Revolving Fund has shown steady growth in both the size and diversity of its investment portfolio. The Revolving Fund has consistently invested between $12 million and $16 million per year, creating a portfolio totalling $67 million at the end of 1988. In addition, the Office of Investment administers ten loans that were obligated by the Bureau for Private Enterprise before the Revolving Fund was established.

Although the primary impetus for loan decisions is economic development rather than return on investment, the Revolving Fund's mandate for market rate lending has contributed to a consistently favorable rate of return of close to eight percent in 1988. The Revolving Fund's loss ratio is projected at only two percent, which is considered quite low, given the exclusive emphasis on developing countries and higher-risk lending.

Geographic Diversity

The Revolving Fund's authorizing legislation states that no more than 20 percent of its assets can be used to support projects in any one country. With this in mind, the Revolving Fund has made an effort to make an impact in as many diverse regions as possible. Asian countries have offered the greatest opportunity for Revolving Fund investments. Accordingly, projects in Asia accounted for more than half the total portfolio ($28.6 million) at the end of 1987.

REGIONAL DISTRIBUTION OF PROJECTS
1984-1988 (cumulative)



In fiscal year 1988, efforts were made to strengthen the Fund's presence in all geographic regions and particularly in Africa. As a result, the distribution of projects at year end was 54 percent in Asia/Near East, 25 percent in Latin America, and 21 percent in Africa.

"The Revolving Fund has been used to demonstrate creative means of coaxing less developed countries' financial institutions to venture into more risky, small-to-medium business loan arrangements."

A.I.D. Management Assessment

A Mandate for Innovation

Although the Revolving Fund's emphasis on private sector investment is in itself an innovation for the Agency, the Fund has manifested its mandate for innovation in a number of ways. These range from pioneering new financing mechanisms to funding creative ventures to finding new ways to introduce the United States private sector to development.

New Financing Techniques. Financing techniques considered routine in the United States may be virtually unheard of in developing countries. For example, the Revolving Fund continues to encourage banks to use cash-flow lending, rather than traditional collateral lending. Using this approach, banks should be able to move into new markets and lend successfully to enterprises that otherwise would not receive financing. Other innovative projects include the development of a venture capital company in Thailand and a new project to utilize the Revolving Fund's direct guarantee authority to expand trade financing in the less developed countries.

"Net export creation has been fantastic—the [Revolving Fund] is functioning as intended. Without A.I.D. funding, we never could have done a thing."

Bernardo Picardo, President, Comercializadora Dominicana S.A., a consortium developing non-traditional exports from the Dominican Republic.

New Markets. Revolving Fund projects have successfully influenced financial institutions to move into new markets. For example, under Revolving Fund projects the Thai Danu Bank in Thailand and the Philippine Commercial International Bank and Metropolitan Bank and Trust in the Philippines all increased their lending to small businesses located outside major metropolitan areas.

American Private Sector. The Revolving Fund also helps encourage the American private sector to participate in Third World development. Approximately 25 percent of all Revolving Fund projects have involved the United States private sector. American banks have guaranteed loans; American firms have invested in projects; and American exporters have

provided tools, technology and equipment. A 1987 investment includes American investors in a fish and tuna processing operation in Africa. And a research and development project in Asia includes a Texas-based biotechnology research company. In addition, the Revolving Fund's 1988 loan guarantees in favor of a bank in the Philippines require that the guaranteed funds be used for the purchase of American-made goods and services.

Replicable Models. Since its inception, a number of projects implemented under the Revolving Fund have successfully served as catalysts for further loan projects by USAID Missions. For example, following a Revolving Fund commitment in Thailand, the Mission there was able to create an $8 million "Small Industry Guarantee Fund" that should support at least $16 million in loans. In conjunction with two 1988 Revolving Fund guarantees to Jordanian banks, the USAID Mission initiated a third guarantee program targeting micro and small private enterprises.

Paul Lokatili
Bank Niaga, Indonesia
1985 Revolving Fund
Loan Guarantee

Neighbors still remember Paul Lokatili as one of the best basketball players in Ujung Pandang. When his basketball days were over, Paul started his own restaurant and eventually expanded into a beer distribution business. Paul's business prospered, but he knew his future growth was limited by his cramped warehouse.

A Bank Niaga loan partially guaranteed under the Revolving Fund enabled Paul to purchase land and construct a new warehouse. The company's growth allowed him to hire more employees and spur his entrepreneurial dreams: he plans to start distributing soft drinks and other beverages. And using his delivery system, he has already begun distributing a new brand of socks called Kaus Kaki Mundo.

The accomplishments of the Revolving Fund's first four years—creating and testing new loan mechanisms and sharing successes with USAID Missions around the world—will enable the Fund in 1989 to move toward a new arena: Congressionally-approved loan guarantee authority. While the goals of the Fund will not change, the new authority will tremendously increase the Fund's investment leverage and influence to strengthen developing countries' private sectors.

Guarantee Authority

In 1988 the Office of Investment began to explore and develop program strategies and capabilities in preparation for receiving the new guarantee authority, approved as part of the Omnibus Trade Bill signed in September 1988. The authority will enable the fund to increase the leverage of assets by permitting four dollars of loan guarantees to be obligated for every dollar in a reserve account at the United States Treasury. Because guarantees will cover 50 percent of the lenders' exposure, each dollar in the reserve account will actually leverage the equivalent of eight dollars of loans. Accordingly, the guarantee authority has enormous potential for implementing the basic goal of the Revolving Fund: to enhance private sector development.

Africa

At the beginning of 1988, the Revolving Fund set the goal of building a stronger base in Africa. The Revolving Fund is on the way toward successfully achieving its goal: four of the seven 1988 projects are in Africa, totalling $4.6 million and mobilizing $42.8 million in loans to private enterprises.

Loekito Kusumo
Bank Niaga, Indonesia
1985 Revolving Fund Loan

Birds' nests are a valuable delicacy in Southeast Asia. Believed to enhance health and virility, the rare nests are cooked in soups or eaten raw.

Loekito Kusumo's dream to provide high quality nests for export became a reality with a $55,000 loan from Bank Niaga under the Revolving Fund guarantee program. More than 70 women clean the nests by hand and then leave the nests to dry in front of fans. The process turns brown nests into clear, opaque baskets.

Loekito demands high quality and trains his employees for three months, so they will master the difficult cleaning technique.

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IMA Haulers
Kenya Commercial Finance Company, Kenya

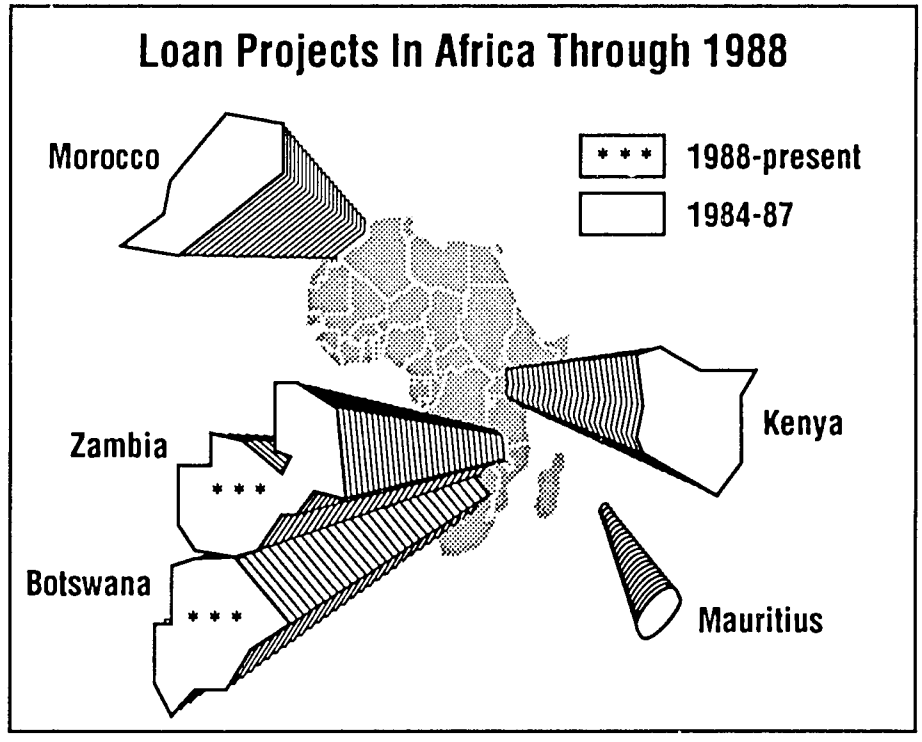
In 1983 the Government of Kenya, recognizing that private contractors could improve delivery time to the mill, allowed one of its sugar companies to contract out cane hauling.

The opportunity inspired the Saini family to purchase a rundown transport operation. They borrowed $66,000 from Kenya Commercial Fund Company under the Bureau for Private Enterprise program, and used the funds to replace old tractors, build a repair shop and streamline operations.

Today IMA Haulers uses John Deere tractor-trailers and California-built claw tractors to transport cut sugar cane. The Saini's have increased employment by 60 percent and their profit margin by ten percent.

"My only complaint is that the sugar company won't let us work up to our capacity, which could be seven days a week," Mr. Saini comments.

Total project obligations in Africa represent 21 percent of the Revolving Fund's overall portfolio, an increase from 13 percent at the close of fiscal year 1987.



Mission Coordination

In 1988 the Revolving Fund also sought to improve coordination with USAID Missions. Every project obligated in fiscal year 1988 was co-designed with the relevant USAID Mission. Five of the seven projects were co-financed with the Missions. Moreover, the Missions actively sought Revolving Fund financing and expertise. We view this as an indication that the Private Sector Initiative is being institutionalized as a means of development.

Training

In conjunction with loan guarantee programs, the Bureau for Private Enterprise has provided small business lending seminars for bankers, business owners, USAID personnel and representatives from governments and their regulatory agencies. Training seminars for banks cover small business lending practices, with emphasis on assessing sustainable growth rates, life cycles of successful businesses, avoiding financial pitfalls and recognizing danger signs. Seminars also emphasize loan monitoring methods.

The Revolving Fund in 1988 provided separate seminar programs for small businesses, covering the basics of borrowing, analyzing the health of a business, financial accounting, the impact of taxation and analyzing financial statements and cash flows.

Evaluations

The Office of Investment has commissioned evaluations of selected Revolving Fund projects. The evaluations review loans and outline lessons learned from the Revolving Fund's experience. These lessons not only have proved helpful in enabling the Revolving Fund to design more effective projects, but have also assisted in the development of guidelines for Missions wanting to make independent private sector investments. These guidelines will be published and disseminated early in 1989.

Overall, the findings confirm that the strategy of using private commercial banks and innovative financing mechanisms can significantly contribute to the growth of private sectors in developing countries. Two examples follow:

Extractos Andinos
Financiera Iberoamericana, S.A., Ecuador
1984 Revolving Fund
Loan Guarantee

Jose Bermeo and his family had worked the land all their lives but had never been involved in a large-scale business. Fifteen years ago, Jose and his brother opened Extractos Andinos, the first business in Ecuador to produce fragrance extracts and dried fruits and vegetables.

Letters of credit issued by Financiera Iberoamericana under a Revolving Fund guarantee enabled them to purchase a fruit/vegetable dryer, a granulator, a generator and a cutting machine. "Our business has been growing by leaps and bounds, thanks to our new machinery," says Jose. Today, fixed assets total $400,000, and the company employs 35 workers.

Key lessons learned from projects include:

- **Loan guarantees are the Revolving Fund's most effective financing mechanism.**
- **Collaboration with USAID Missions is important to the success of a project.**
- **In the case of direct project financing, a strong local financial partner is essential.**
- **Flexibility in project design and implementation is important. Thorough analysis of a country's economy and financial markets enables the Revolving Fund to design projects that respond quickly to changing circumstances.**
- **Developing the capabilities of financial institutions is crucially important to success.**

Thai Danu Bank, Thailand

1985 Obligation

The Project. The Revolving Fund established a $2.35 million guarantee facility for the Thai Danu Bank, a small commercial bank in Thailand. The guarantee launched more than $4.7 million in loans to small and medium-sized businesses outside of the Bangkok metropolitan area. Thailand's recent economic growth has been highly concentrated in the capital, while economic stagnation and unemployment are common in rural areas. Small businesses, especially in rural areas, have difficulty obtaining loans because of conservative lending practices.

Results. By the end of the 1987 fiscal year, 76 loans had been made under the guarantee facility, with an average loan size of $63,690. One-third of the loans went to start-up businesses; one-quarter of the businesses used their loans to acquire new technology. Bank officials confirm that the majority of borrowers would not have received loans without the Revolving Fund guarantee program. As of September 1988, there were no defaults on these loans.

As a result of these loan guarantees, two industries were assisted — agricultural produce (such as chicken, pork, and fruit) and traditional Thai handicrafts. At the half-way point of the program, 325 full-time and 255 part-time jobs had been created.

More importantly, the project had a positive influence on the Thai Danu Bank. Now that it has had significant experience in working with small entrepreneurs, the bank has demonstrated a new ability and willingness to lend to small, rural enterprises.

The Mission in Thailand has closely monitored the project and is using it as a model for the "Small Industry Guarantee Fund," a $16 million Mission-financed guarantee program. The Bureau for Private Enterprise is also considering a follow-on project with Thai Danu to continue its support for rural development.

Far East Bank and Trust, The Philippines
1985 Obligation

The Project. The Revolving Fund established a loan guarantee facility of $2 million in favor of Far East Bank to support the extension of short-term export credits to small and medium-sized businesses.

Because of the volatile economic environment in the Philippines, banks were postponing new extensions of credit until the situation stabilized. Both the Philippine government and the USAID Mission recognized the need to develop Philippine exports and broaden the country's economic base.

Results. By the end of FY 1988, more than 1,000 A.I.D.-guaranteed loans were generated. Of these thousand loans only 1.2 percent were in default.

Several Far East Bank borrowers were new entrants to the formal credit system, while others—those who had lost access to conventional credit during the Philippines' economic and political difficulties—were able to re-enter the system. Before the guarantee, the Far East Bank had considered plans to enter the small business sector, but the Revolving Fund enabled the bank to move more aggressively than it had originally planned. Officers of the bank say that most borrowers could not have qualified for loans without the loan guarantee facility in place.

Key lessons learned from projects include:

- **Developing standardized documentation and a streamlined approach to project approval to permit efficient operations.**
- **Strong financial institutions make the best development partners. Banks should also be able to meet the needs of the Revolving Fund's target markets. For example, if rural businesses are targeted, the bank should have an adequate rural branch network.**
- **Regular and consistent monitoring is necessary through the life of the project.**
- **Revolving Fund credit programs through financial institutions should make explicit provision for the use of reflows to continue lending operations of the type carried out under the project.**

Saldana and Company
Far East Bank and Trust Company, The Philippines
1985 Revolving Fund
Loan Guarantee

The economic crisis in the Philippines left Saldana and Company, a family-owned garment manufacturer, in trouble. One of its subsidiaries, a carpet manufacturing firm, was facing bankruptcy. The mother, who had been the company's longtime manager, had died, and the the father was semi-retired. The son was a new, untested manager of the company. Father and son turned to the Far East Bank for a loan to pull them through the difficulties.

Although the company had enjoyed a good relationship with the bank, officials were unprepared to accept the risky loan. Only by using the Revolving Fund could they assist the company.

The loan was effective. The company regained its health. The family paid off the debt of the carpet manufacturing subsidiary and began carpet production on a small scale for the local market.

The program has proved successful in expanding export business, stimulating more than $60 million in export earnings. Employment has been generated for more than 500 workers, primarily in furniture, garment, marine and agricultural product industries. Because of the success of this project, the Bureau for Private Enterprise has structured a follow-on project with Far East Bank to continue its support for trade-related activities.

In fiscal year 1988, the Revolving Fund obligated seven new projects totalling $11.786 million. Six of these are loan guarantee projects for Botswana, Jordan and the Philippines. These guarantee projects should generate more than $17.5 million in credit to private enterprises. The remaining project is a $3 million direct loan to an international joint venture for agricultural development in Zambia.

A common thread in each of the 1988 projects is the expansion of trade between the host country and the United States. For example, the Zambian project features co-financing with investors from the United States who will export farm equipment for the project. The A.I.D.-guaranteed loans in Jordan and the Philippines are tied to the purchase of United States goods and services.

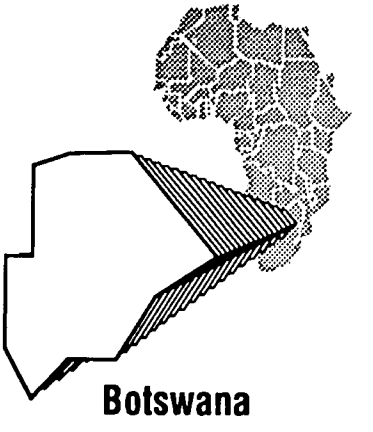
The projects are described in more detail below.

"The Bureau for Private Enterprise has successfully introduced innovations in A.I.D.'s private enterprise program... [including] new financing techniques to increase the flow of resources to small and medium business."

A.I.D. Management Assessment

Botswana

Background. With a gross domestic product growing five percent per year since 1981, Botswana's economic performance seems impressive for a developing country. A closer look reveals a more troubling economic picture. The economy's health is based on the success of a single industry—diamond mining—and reliance on a single industry or product for economic health is a common precursor to economic problems in developing countries. Moreover, diamond mining provides only six percent of all jobs. Approximately one in four is unemployed, and approximately one in six is underemployed. The country is facing its sixth straight year of severe drought. The economy of Botswana is also vulnerable due to its reliance on South Africa, a politically unstable country, as an export market.



Bank: Barclays Bank of Botswana Ltd.
Project No.: 940-0002.83
Loan No.: 633-S-004
Type: Loan Guarantee
Amt. Guaranteed: $750,000

Bank: Standard Chartered Bank Botswana, Ltd.
Project No.: 940-0002.81
Loan No.: 633-S-003
Type: Loan Guarantee
Amt. Guaranteed: $500,000

Lending Bank: Bank of Credit and Commerce (Botswana)
Project No.: 940-0002.82
Loan No.: 633-S-005
Type: Loan Guarantee
Amt. Guaranteed: $350,000

In response to these conditions, the government of Botswana, working with the USAID Mission, began to promote a highly favorable free enterprise climate marked by deregulation of the country's financial markets.

In this context, the USAID Mission asked the Private Sector Revolving Fund to develop a guarantee program that would help develop a diversified economy with sustained growth.

The Projects. Three loan guarantee facilities, totalling $1.6 million, were established in favor of private banks in Botswana. The guarantees cover up to 50 percent of the lending banks' risk for loans made to small enterprises which otherwise would have been denied credit. The guarantee mechanism will leverage at least $3.2 million in loans. All three banks will offer short and medium-term credit for agricultural, manufacturing and service enterprises in urban and rural areas.

Target borrowers are small and medium-sized businesses with fewer than 50 employees. The Office of Investment anticipates that many borrowers will be women owner/operators of small businesses.

Barclays Bank, the largest bank in the country, has a guarantee facility of $750,000. Standard Chartered Bank received a $500,000 loan guarantee, and the smallest and newest of the three banks, the Bank of Credit and Commerce, received a $350,000 loan guarantee.

Training. With the Mission, the Revolving Fund co-sponsored five days of valuable training seminars, covering small business finance for business people, government officials and bankers.

USAID Mission Involvement. The Mission in Botswana played an instrumental role by co-designing and co-financing the loan program. The Mission took part in the training seminars and is expected to provide an additional technical assistance program to educate small entrepreneurs.

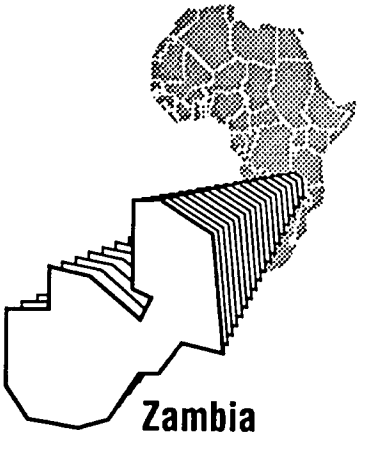
"I could not have done anything without [the PRE loan]. We understand that it comes from the U.S., and I would like those people to come and see that I put it to the proper use. I'm going to work hard and see it is paid off."

Geoffrey Gathura, Kenyan coffee farmer and owner of a coffee factory, whose A.I.D.-guaranteed loan enabled him to construct a coffee processor.

Zambia

Background. Zambia's relatively stable political environment does not protect this Southern African country from experiencing serious economic difficulties. Zambia, which relies on copper to make up 90 percent of total export earnings and 50 percent of the gross domestic product, has been affected by the world's volatile copper prices. In addition, the country is having difficulty producing enough food to meet the needs of its people.

The Government of Zambia has placed a priority on developing a more diverse economy, particularly in the agricultural sector. The goals are to stimulate employment, increase domestic food supply and generate additional sources of foreign exchange.



The Project. In response to a request by the Mission, the Revolving Fund has obligated a $3 million direct loan to an agricultural joint venture among Ireland-based Masstock International, two U.S. farm equipment manufacturers, the International Finance Corporation, the Overseas Private Investment Corporation, A.I.D., and a European development

Borrower: Masstock (Zambia) Ltd.
Project No.: 940-0002.85
Loan No.: 611-S-019
Type: Direct Loan
Amount: $3,000,000

financial institution. Masstock has extensive experience in the development and operation of arable farming.

The project will develop a 3,140 hectare (7,864 acre) farm 100 kilometers southeast of Lukasa. With only 20 percent of the arable land in Zambia under cultivation, this project is designed to showcase effective farming techniques and demonstrate the potential for Zambian agriculture. Through the life of the project, at least 57 full-time employees and up to 750 seasonal employees will be hired.

Trade with the United States is also a key feature of the project. The two U.S. investors will export $10.4 million in farming equipment and supplies.

The Philippines

Philippines

Background. In 1985, the Revolving Fund and the Far East Bank and Trust Company established the Philippines Small Business Credit Program, in response to a severe 1985-86 recession. This export trade financing program has enabled private businesses to obtain short-term trade credit through Far East Bank under a partial Revolving Fund guarantee.

In 1986, the Philippines eliminated some of the strict import controls it established during the recession, setting the stage for increased trade with the United States.

The 1988 guarantee facility builds on the success of the earlier project. Where the 1985 loan helped Filipino exporters, the 1988 project will assist small and medium-sized importers of U.S. goods and services. Usually, credit is not accessible to these small importers, due to their small size, short business history and limited collateral.

The Project. The Revolving Fund is providing a $2,186,000 guarantee that should mobilize at least $4,372,000 in local currency loans. The target group is small importers and trading houses involved in U.S. import trade, primarily those importing capital equipment.

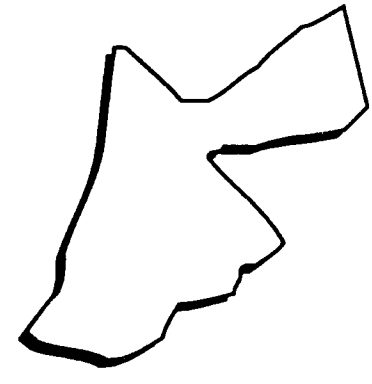
Bank: Far East Bank and Trust
Project No.: 940-0002.80
Loan No.: 492-S-095
Type: Loan Guarantee
Amt. Guaranteed: $2,136,000

Far East Bank, founded in 1960, is a private commercial and investment bank that has confirmed its willingness to increase lending to small businesses. As the second largest Filipino bank, it has a significant influence on local lending practices.

Training/Capacity Building. The Bureau for Private Enterprise is considering providing the bank with a grant for a computer software package, made in the United States, which will provide the bank with improved analytical abilities to move into the area of cash flow lending.

Jordan

Background. The Jordanian economy has been sustained by the export of skilled and unskilled labor to oil-rich Middle East countries. In the late '70s and early '80s, approximately 30 percent of the workforce was employed abroad and paid taxes and remittances to Jordan. However, as oil prices fell, the Jordanian economy began to suffer. Taxes and remittances decreased drastically, and many Jordanian workers returned, thereby increasing unemployment. In addition, financial support of the Jordanian government by Arab countries decreased by 65 percent.



Jordan

Jordan is now in a recession characterized by chronic unemployment which is aggravated by one of the world's highest birthrates.

Because Jordan's private sector is in need of financing to purchase equipment and goods, the USAID Mission in Amman requested Revolving Fund participation in designing a guarantee facility.

Bank: Arab Bank
Project No.: 940-0002.77
Loan No.: 278-S-033
Type: Loan Guarantee
Amt. Guaranteed: $3,000,000

The Project. Two loan guarantees, a $2 million guarantee to Cairo Amman Bank and a $3 million guarantee to Arab Bank or other similar institution, will be mobilized. These local currency funds will be on-lent to small and medium-sized businesses.

Training. In conjunction with this loan, the Revolving Fund and the USAID Mission will co-finance training so that bank personnel can develop skills in cash flow lending.

Bank: Cairo Amman Bank
Project No.: 940-0002.78
Loan No.: 278-S-034
Type: Loan Guarantee
Amt. Guaranteed: $2,000,000

USAID Mission Involvement. The Revolving Fund also worked with the USAID Mission to develop a similar guarantee program, which the Mission will administer itself. The Mission guarantee program targets the micro and small enterprises.

For the Revolving Fund 1989 will be a year of both consolidation and new beginnings. Over the past five years, Revolving Fund management has explored a number of approaches to private sector development. The process has revealed to both A.I.D. and developing countries that the private sector can play a key role in strengthening emerging economies and improving the ability of countries to help themselves. At the same time the Revolving Fund has discovered a great deal about the strategies and mechanisms which work best in private sector development.

In 1989 the Revolving Fund will continue to apply the lessons learned over the past five years. Its priorities will include the design and marketing of innovative financing mechanisms using the statutory guarantee authority. The most important story for 1989 will be the activity under the guarantee authority. The Revolving Fund looks forward to the opportunity to leverage available funds to underwrite more loans, offer more education and create a greater impact. The guarantee authority will significantly broaden the sphere of the influence of the Revolving Fund and A.I.D. among the world's private sectors.

"The more we can leverage the Private Sector Revolving Fund into providing more assistance and credit to businesses in the developing world, the more we can foster increased purchases of United States goods and services by Third World businesses."

Senator Alfonse D'Amato (R-NY), co-sponsor of the guarantee authority legislation.

Additional Priorities

During the coming year, the Revolving Fund will also continue to explore new financing mechanisms. Presently, the Office for Investment is designing two generic mechanisms: a global trade project involving the "a forfait" market and a standardized approach to the guaranteeing of credit through commercial banks, and is providing assistance to Missions implementing Public Law 480 lending programs.

The rationale of [the Section 108] program is that private enterprise is vital to the economic growth in the Third World, and that an economically healthy Third World is not only crucial to the world economy but is also also a key market for American goods and services.

Senator John F. Kerry (D. Mass.), co-sponsor of the guarantee authority legislation.

Sinar Harapan
Bank Niaga, Indonesia
1985 Revolving Fund Loan

Foreign visitors and locals in Ujung Pandang know and love the "Kacang Disco" brand of peanuts. It is one of ten varieties sold by Sinar Harapan's business, which also handles distribution of beans, nuts, cacao and peas.

Sinar knew his peanuts were popular enough for export, but the peanuts are packaged by hand to standards high enough only for local distribution. Sinar turned to the Bank Niaga and the Revolving Fund for a loan to purchase a packaging machine and land to build a bigger warehouse.

Sinar's expansion creates more jobs for locals who will open, sort, cook and package the popular peanuts and other food products. And foreign visitors won't have to travel to Indonesia to buy "Kacang Disco" peanuts.

Non-Recourse Export Financing. One of the most common financing methods in Western Europe, forfaiting involves exporters accepting negotiable notes from their developing country customers and selling these notes to a bank or private investor. An important feature of this project will be its ability to link development with the promotion of U.S. exports.

Standard Document. The Revolving Fund is developing a standardized document that can be used to provide credit worldwide through financial institutions to small enterprises. Having a standard document will enable the Fund to expand its reach, offering more loans more efficiently.

Public Law 480. A new challenge facing the Revolving Fund in 1989 will involve Public Law 480, an interagency program that enables the United States to sell surplus food to developing countries. Since 1985, P.L. 480 policy has allowed USAID Missions to use funds generated out of these sales for private sector development. In the past, Revolving Fund officers have provided informal consultation in creating guidelines and assistance to Missions interested in the program. In 1989 the Office of Investment will have a formal responsibility for working with interagency policy groups on the P.L. 480 program.

The Overall Outlook

There is no question that the Revolving Fund faces a challenging year, but the Office of Investment firmly believes that the foundation that has been built will easily support the expansion and increased influence expected in 1989. And certainly the Office of Investment looks forward to the challenges ahead, because they mean that more developing private sectors will benefit from United States investment.

The effects will be felt by many people—by a loan officer in a rural branch of an Asian bank, by an African businessman meeting for the first time with his American partners in a joint venture, by a Latin American woman launching her own garment business, by workers in a new enterprises and consumers of new products. Private sector success stories are the Revolving Fund's rewards, and as the Fund moves into the second half of its first decade there should be many.

"I think it's time for new ideas that can produce real solutions. And the best social program is a productive job for anyone who's willing to work."

President Ronald Reagan
(Remarks at a Luncheon With Local Elected Officials and Businessmen, July 13, 1982)

EXHIBIT A

PRE/I REVOLVING FUND BALANCE SHEET
AS OF SEPTEMBER 30, 1988 (IN THOUSANDS)

Assets		
Fund Balance with Treasury and Cash – Exhibit C		$ 41,485
Investments–Short-term U.S. Government Obligations (at amortized cost which approximates market value)		6,329
Total Loan Commitments	$ 67,350	
Less Undisbursed and Repayments	44,699	
Loans Outstanding	22,651	
Less Provision for Losses	1,105	
Net Loans Outstanding		21,546
Accrued Interest on Loans		516
Total Assets		$ 69,876
Capital		
Appropriated Capital		$ 67,350
Accumulated Earning--9/30/87	$ 1,867	
Less-Provision for Losses for Fiscal Years Ending September 30, 1985, 1986 and 1987	652	
Restated Accumlated Earnings--9/30/87		$ 1,215
Net Income, Fiscal Year 1988--Exhibit B		1,311
Accumulated Earnings--9/30/88		$ 2,526
Total Capital		$ 69,876

(EXHIBIT D – NOTES TO FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT)

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EXHIBIT B

COMPARATIVE STATEMENT OF INCOME FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 1987, AND SEPTEMBER 30, 1988
(IN THOUSANDS)

Operating Income	1987	1988	Increase/Decrease
Income from U.S. Government Obligations	$ 91	$ 301	$ 210
Income from Loan Investments:			
Interest	832	1,321	489
Fees	98	142	44
Gross Income	$ 1,021	$ 1,764	$ 743
Less Provision for Losses	363	453	90
Net Income - Exhibit A	$ 658	$ 1,311	$ 653

(EXHIBIT D - NOTES TO FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT)

EXHIBIT C

PRE/I REVOLVING FUND COMPARATIVE STATEMENT OF FUNDS AVAILABLE AND UTILIZED FOR THE FISCAL YEARS 1987 AND 1988 (IN THOUSANDS)

	Fiscal Year Ended September 30, 1987	1988
Funds Available		
Fund Balance – Beginning	$ 34,255	$ 40,859
Appropriated Capital	15,500	6,350
Net Income	658	1,311
Loan Principal Repayments	2,028	1,438
Non-cash Provision for Losses	363	453
Non-cash Increase in Accrued Income	(31)	(209)
Total Funds Available	**$ 52,773**	**$ 50,202**
Funds Utilized		
Loan Disbursements	$ 8,825	$ 5,946
Increase in Treasure Bills (at Cost)	3,089	2,771
Total Funds Utilized	$ 11,914	$ 8,717
Ending Fund Balance – Exhibit A	$ 40,859	$ 41,485

(EXHIBIT D – NOTES TO FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT)

EXHIBIT D

PRE/I REVOLVING FUND NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 1988

Note A – Prior year financial statements of the PRE/I Revolving Fund did not include a provision for losses on loans outstanding at the end of each fiscal year. In accordance with generally accepted accounting principles, and a policy decision taken by Fund managers early in Fiscal Year 1988, the PRE/I current financial statements as of September 30, 1988 have been adjusted to reflect a provision for losses of two (2) percent of the loans outstanding at the end of each fiscal year since inception of the Fund.

Note B – The above Fund policy of providing a 2% provision for losses on loans outstanding has required a restatement of the Fund's accumulated earnings as of September 30, 1987 as follows:

Accumulated Earnings – 9/30/87			$ 1,867,370
Less – Provision for Losses	1985	$ 62,125	
	1986	226,925	
	1987	362,862	651,912
Restated Accumulated Earnings – 9/30/87			$ 1,215,458

LOAN PORTFOLIO – PRIVATE SECTOR REVOLVING FUND

1984 OBLIGATED PROJECTS
AS OF SEPTEMBER 30, 1988

Name • Country Project Number	Funding (MM) Loan	Grant	Terms Rate	Grace	Term	Disbursement $	%	Total Reflows	Project Description
Caribbean Basin Corporation (Caribbean-wide) 940-0002.41	1.2	–	12.7 %	5 yrs.	5 yrs.	261,250	22	$ 62,500.00	Venture capital fund finances new businesses in Caribbean.
Finade (Domican Republic) 940-0002.25	2.0	.05	Based on yield of qualifying investments	4 yrs.	7 yrs.	2.0 MM	100	$ 280,435.95	Guarantee generates $4 million to develop non-traditional export businesses.
Finguasa Finaciera de Guayaquil, SA (Ecuador)	1.4	–	Based on yield of qualifying investments	3 yrs.	10 yrs.	1.4 MM	100	$ 164,404.09	Guarantee to support local bank letters of credit in favor of small importers.
Finiber I Financiera Iberoamericana, SA (Ecuador) 940-0002.36	1.4	–	Based on yield of qualifying investments	3 yrs.	10 yrs.	1.4 MM	100	$ 234,839.97	Guarantee generates $2.8 million to support agro-businesses, including livestock and fisheries.
Healthlink (Thailand, Indonesia) 940-0002.31 (T) 940-0002.32 (I)	.314	–	Based on yield of qualifying investments	5 yrs.	9 yrs.	314,000	100	$ 68,219.03	Guarantees a pool of loans for health projects providing less expensive health products for use in A.I.D.-assisted countries.
Thailand Livestock Meat Processing (Thailand) 940-0002.36	2.5	.07	10.25%	3 yrs.	10 yrs.	2.5 MM	100	$ 33,507.52	Direct loan finances new meat processing equipment from the United States.
Wafabank (Morocco) 940-0002.34	2.5	.05	Based on yield of qualifying investments	1.5 yrs.	5 yrs.	2.5 MM	100	$1,591,050.97	Provides short-term hard currency credit for small Moroccan businesses.

LOAN PORTFOLIO – PRIVATE SECTOR REVOLVING FUND

1985 OBLIGATED PROJECTS
AS OF SEPTEMBER 30, 1988

Name • Country Project Number	Funding MM Loan	Funding MM Grant	Terms Rate	Terms Grace	Terms Term	Disbursement Level $	Disbursement %	Total Reflows	Project Description
Accion Micro-Lending Guarantee Pool (Latin America/ Caribbean) 940-0002.44	1.0	.10	180 day T-Bill	19 mos.	5 yrs.	400,000	40	$ 23,324.64	Guarantee generates credit for micro businesses throughout Latin America.
Agribusiness Investment Corp. (Latin America/ Africa)	2.5	–	12% plus profit participation	1.5 yrs.	5 yrs.	146,000	6	$ 32,796.42	Creates venture capital fund financing new agri-businesses, provides technical assistance.
Bank Niaga (Indonesia) 940-0002.46	2.0	.05	9.5%	1.5 yrs.	7 yrs.	2.0MM	100	$ 213,441.75	Guarantee supports $4 million in credit to small and medium enterprises outside Jakarta.
Far East Bank & Trust I (Philippines) 940-0002.49	2.0	–	3 year T-note plus .1%	1.5 yrs.	5 yrs.	2.0 MM	100	$ 845,269.13	Guarantee generates at least $4 million in credit to small and medium-sized pre-export firms.
International Multifoods (Latin America/ Caribbean) 940-0002.52	1.0	–	1 year T-Bill plus 2%	5 yrs.	5 yrs.	1.0MM	100	$ 578,891.67	Loan to U.S. company finances agri-business loans, provides sophisticated technology, agricultural expertise.
Overseas Express Bank (Indonesia) 940-0002.47	2.85	.05	3 year T-Bill plus .1%	1.5 yrs.	5 yrs.	500,000	18	$ 559,824.49	Guarantee mobilizes $5.7 million in credit to enterprises in less-populated areas of rural Indonesia.
Societe Marocaine de Depot et Credit (Morocco) 940-0002.48	2.0	–	3 year T-Bill	3 yrs.	3 yrs.	– 0 –	0	$ - 0 -	Guarantee of letter of credit issued by local bank in favor of small importers.
Thai Danu Bank (Thailand) 940-0002.48	2.35	.05	3 year T-Bill plus .1%	1.5 yrs.	6 yrs.	2.35MM	100	$ 872,540.18	Guarantee generates $4.7 million in loans to small and medium-sized rural enterprises.

LOAN PORTFOLIO – PRIVATE SECTOR REVOLVING FUND

1986 OBLIGATED PROJECTS AS OF SEPTEMBER 30, 1988

Name • Country Project Number	Funding (MM) Loan	Funding (MM) Grant	Terms Rate	Terms Grace	Terms Term	Disbursement $	Disbursement %	Total Reflows	Project Description
Bank of the Philippine Islands (Philippines) 940-0002.58	2.4	–	90 Day T-Bill plus .6%	2 yrs.	5.5 yrs.	– 0 –	0	– 0 –	Guarantee generates $4.8 million to finance small and medium rural agri-businesses.
Edesa (Sub-Sahara Africa) 940-0002.67	2.0	–	90 Day T-Bill plus .375 %	3 yrs.	5 yrs.	1.5 MM	75	$ 121,359.56	Guarantee generates $4 million to develop Sub-Saharan small business sector.
Finiber II Financiera Iberoamericana,SA (Ecuador) 940-0002.60	1.5	–	Based on collateral account earnings	2 yrs.	5 yrs.	– 0 –	0	– 0 –	Guarantee of debt instrument issued by local development bank, proceeds to be used to finance small agri-businesses.
Metrobank (Philippines) 940-0002.57	2.1	–	90 Day T-Bill plus .5 %	2 yrs.	5.5 yrs.	500,000	24	$ 28,528.76	Guarantee generates $4.2 million to finance rural lending.
Philippine Commercial International Bank (Philippines) 940-0002.59	2.4	–	90 Day T-Bill plus .375%	2 yrs.	5.5 yrs.	1.5 MM	63	$ 67,447.56	Guarantee generates $4.8 million to finance rural lending to small and medium enterprises.
Serum Institute (India) 940-0002.54	1.0	–	6 month T-Bill plus .5%	3 yrs.	8 yrs.	– 0 –	0	– 0 –	Direct loan for developing and manufacturing MMR vaccines, to reduce mortality rates among children. Loan covers the cost of importing U.S. capital equipment for the project.
Union of Bolivian Banks (Bolivia) 940-0002.60	2.0	.06	90 Day T-Bill plus .375%	1.5 yrs.	4 yrs.	0	0	– 0 –	Guarantee opens credit to enterprises previously without access to the formal financial system.

LOAN PORTFOLIO – PRIVATE SECTOR REVOLVING FUND

1987 OBLIGATED PROJECTS
AS OF SEPTEMBER 30, 1988

Name • Country Project Number	Funding MM Loan	Funding MM Grant	Terms Rate	Terms Grace	Terms Term	Disbursement Level $	Disbursement %	Total Reflows	Project Description
Diamond Trust of Kenya (Kenya) 940-0002.73	1.0	.05	3 month T-Bill plus .5%	2 yrs.	5 yrs.	– 0 –	0	– 0 –	Guarantee generates $2 million for credit to Kenyan businesses.
Guatemala Commercial Financial Institutions (Guatemala) 940-0002.74	3.0 (A.I.D.) 5.5 (USAID)	–	90 Day T-Bill plus .375 %	3 yrs.	5 yrs.	– 0 –	0	– 0 –	Guarantee provides credit to artisans, farmers and agri-businesses.
Novagene Group Partnership (ASEAN Region) 940-0002.76	2.0	–	90 Day T-Bill plus .375%	2 yrs.	2 yrs.	– 0 –	0	– 0 –	Direct loan creates a U.S.-Asian R & D limited partnership to develop and produce genetically engineered animal vaccines.
Securitized Trade (Turkey) 940-0002.56	2.4	–	180 Day T-Bill plus .375 %	13 mos.	3 yrs.	2.4 MM	100	$ 351,640.33	Guarantee of Turkish finance company's borrowing on U.S. capital market to finance small business trade exports.
South Pacific Guarantee Facility (South Pacific) 940-0002.68	1.75	–	90 Day T-Bill plus .75%	3 yrs.	7 yrs.	– 0 –	0	$ 5,000.00	Guarantee facility increases bank credit to small businesses in ten South Pacific countries.
Thai Venture Capital (Thailand) 940-0002.71	3.0	.05	4% plus Profit Participation	5.5 yrs.	10 yrs.	210,316	7	– 0 –	Direct loan established first Thai venture capital company to make equity investments in small business sector, assist U.S. technology imports.
Trident Foods, Ltd. (Mauritius) 940-0002.70	2.0	–	10%	2.5 yrs.	7 yrs.	1.236 MM	62	$ 30,366.50	Direct loan established tuna fishing and processing firm.

LOAN PORTFOLIO – PRIVATE SECTOR REVOLVING FUND

1988 OBLIGATED PROJECTS AS OF SEPTEMBER 30, 1988

Name • Country Project Number	Funding (MM) Loan	Funding (MM) Grant	Terms Rate	Terms Grace	Terms Term	Disbursement $	Disbursement %	Total Reflows	Project Description
Arab Bank LGF (Jordan) 940-0002.77	3.0	–	90 Day T-Bill plus .375%	2.5 yrs.	5 yrs.	– 0 –	0	– 0 –	Guarantee generates $6 million in loans to private businesses needing U.S. imports.
Bank of Credit and Commerce Loan Guarantee Facility (Botswana) 940-0002.82	.350	–	90 Day T-Bill plus .65 %	2.5 yrs.	5 yrs.	– 0 –	0	– 0 –	Guarantee mobilizes $700,000 to finance businesses in urban and rural areas
Barclays Bank Loan Guarantee Facility (Botswana) 940-0002.83	.750	–	90 Day T-Bills plus .65%	2.5 yrs.	5 yrs.	– 0 –	0	– 0 –	Guarantee mobilizes $1.5 million to finance businesses in urban and rural areas.
Cairo Amman Bank (Jordan) 940-0002.78	2.0	–	90 Day T-Bill plus .375 %	3 yrs.	5 yrs.	– 0 –	0	– 0 –	Guarantee generates $4 million in loans to private businesses needing U.S. imports.
Far East Bank and Trust II (Manila, Philippines) 940-0002.80	2.186	–	3 Month T-Bill plus .6%	24 mos. from first disburse-ment	6 yrs.	– 0 –	0	– 0 –	Guarantee generates $4.372 million in loans to businesses importing U.S. capital goods.
Masstock Ltd. (Zambia) 940-0002.85	3.0	–	11.25%	3.5 yrs.	6.5 yrs.	– 0 –	0	– 0 –	Direct loan to construct, equip and operate farm to improve domestic wheat production.
Standard Chartered Loan Guaranty Facilty (Botswana) 940-0002.81	.5	–	90 Day T-Bill plus .65%	2.5 yrs.	5 yrs.	– 0 –	0	– 0 –	Guarantee mobilizes $1 million to finance businesses in urban and rural areas.