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ANNUAL REPORT

THE PRIVATE SECTOR REVOLVING FUND

BUREAU FOR PRIVATE ENTERPRISE

AGENCY FOR INTERNATIONAL DEVELOPMENT

As of September 30, 1987

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FISCAL YEAR 1987 ANNUAL REPORT
Private Sector Revolving Fund
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Section 108 of the Foreign Assistance Act of 1961, as amended, declares that private enterprise development "is a vital factor in the stable growth of developing countries." Furthermore, it declares that "it is... 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." To promote such development, the President was authorized to establish a "Revolving Fund... "1/

A major purpose of the Revolving Fund managed by the Bureau for Private Enterprise (PRE) of the Agency for International Development is to provide a flexible and business-like mechanism for channeling capital to commercially viable projects with strong development payoffs.

Fiscal year 1987 has been a year of significant accomplishments for the maturation of the Revolving Fund. Two of the seven FY

1/ The statutory requirements for the Revolving Fund Annual Report and corresponding Revolving Fund policy legislation are set forth in Annex A to this report.

1987 investments reflect the continuing emphasis on developing innovative financial mechanisms which will demonstrate to the rest of the Agency new ways of interacting with local private

sectors. For example, the Revolving Fund loan to Business Venture Promotion, Ltd. made possible the first venture capital company in Thailand. This loan is particularly significant in that it will provide access to equity financing for private enterprises at a time when there is a severe debt burden throughout the developing world. A loan to Securitized Trade Financing Fund in Turkey assists small and medium sized exporting companies by generating funds for a trade finance company through the sale of bonds in the U.S. capital market. The project represents a first step on the part of Fund management to devise mechanisms for facilitating open trade in the developing world.

A loan to the NovaGene Partnership Group is the Revolving Fund's first research and development undertaking. In this project, the Revolving Fund is assisting a U.S. partnership in modifying a proven U.S. technology for the eradication of certain swine diseases in the developing world. It also reflects the importance placed by Revolving Fund management on obtaining U.S. partners and generating opportunities for U.S. exports whenever possible.

In two other Revolving Fund loans, U.S. bilateral missions co-designed and are co-funding projects to ensure that they complement their respective private sector strategies. The co-design/co-funding element is becoming increasingly critical to the Fund as it seeks to introduce the bilateral missions to Revolving Fund mechanisms that can be used to assist missions achieve their private sector objectives.

In addition to project specific accomplishments, PRE in FY 1987 made two substantial improvements in the management of the Revolving Fund. First, the Bureau computerized the Revolving Fund's financial management system. Second, PRE began the process of evaluating pre-and early Revolving Fund loans to determine the lessons to be learned from past experience. The first round of evaluations has been highly informative and another series of evaluations will be conducted in 1988.

THE REVOLVING FUND: FY 1987

Portfolio Summary

As of September 30, 1987, the Revolving Fund portfolio comprises 30 loans totalling $60,050,000 in 14 countries. The loans are anticipated to mobilize in excess of $130 million for private sector activities. Twenty-five loans totalling $50,450,000 have been made to intermediate financial institutions. Five loans totalling $9,600,000 have been made directly to developing country private enterprises. Seven loans have been made to U.S. firms or are joint ventures with U.S. partners. Fourteen loans have been to projects involving either co-design or co-financing with USAID Missions. During fiscal year 1987, the fund received $3,000,000 in fees, interest and return on principal for loans executed over the past three years.

Revolving Fund Management

In 1981, the Agency for International Development established the Bureau for Private Enterprise to design and implement programs to increase the role of private enterprise in generating economic growth in the developing world.

The Revolving Fund, subsequently established in 1983, is managed by PRE's Office of Investment as a significant mechanism within the Bureau's overall program.

During FY 1987 Revolving Fund management took several important steps to strengthen the financial management of the Fund. A computer-based financial monitoring system has been installed to provide on-line monitoring of borrower principal and interest payments, delinquency reporting and cash flow projections. Further, an analysis of the portfolio's reporting requirements has been undertaken and the results incorporated into both the computer-based system as well as into an upgraded field monitoring system.

Also in FY 1987, the Revolving Fund has improved management of cash reflows of borrower principal and interest payments through more complete use of electronic fund transfer for virtually all repayments. The Bureau also commissioned a number of case study evaluations to generate "lessons learned" which could be used to further refine the developmental impact of Revolving Fund loans. The net effect of these measures is expected to be both improved portfolio management and an enhanced ability to refine models and lessons for dissemination to the rest of A.I.D. and the broader development community.

Lastly, in FY 1987, PRE has empahsized two guidelines in the programmatic management of the Fund: (1) joint collaboration and co-financing with USAID Missions; and (2) the application of appropriate financial mechanisms tailored to the various Mission private sector strategies and programs.

EVOLUTION OF REVOLVING FUND PRIORITIES AND APPROACHES

Early investments by the Bureau for Private Enterprise prior to and in the first years of the Revolving Fund focused primarily on the use of two approaches: (1) direct loans to private businesses with high potential for employment creation and foreign exchange generation; and (2) direct loans to intermediate financial institutions (IFIs) willing and able to on-lend these funds on a term basis to small and medium-scale enterprises (SMSEs) otherwise lacking adequate access to credit.

Subsequent experience suggested the value of adding a third mechanism--guarantees for loans made by financial institutions, utilizing their own resources, to indigenous commercial institutions for lending to SMSEs. The recipient banks possessed the liquidity to make such loans, but were initially reluctant to bear all of the risks involved in entering new markets. This experience also underscored the importance of focusing projects on narrow financing objectives, such as addressing the needs of small businesses for working capital and trade finance.

Early Revolving Fund experience with direct loans to businesses indicated that direct lending of this sort by A.I.D. provided less developmental impact than loans to IFIs. Moreover, this mechanism has been more difficult for local USAIDs to replicate. Thus, PRE concluded that while these projects have a useful impact and help to position local USAIDs with key elements of the private sector community, their future use should be limited to situations where they form an essential component of the comprehensive private sector strategy of a particular USAID Mission.

Direct loans to banks or other IFIs for on-lending were the subject of considerable experimentation in the early days of the PRE investment program. In these projects, PRE provided loans to IFIs which were matched by these institutions for on-lending to small and medium scale enterprises. Experience indicates that this mechanism was particularly effective when local banks faced severe liquidity problems; however, it entailed a substantial administrative burden on PRE and significant foreign exchange risk on the part of the participating IFI.

More recently, PRE management has found guaranteed lending through IFIs to be a mechanism with particular promise for achieving the development objectives of the Revolving Fund. As designed, PRE provides IFIs with guarantees for up to 50% of loans targeted at specific sub-groups such as SMSEs without actual transfering funds to the overseas IFIs.

Recent projects continued to refine loan mechanisms developed under the Revolving Fund involving intermediate financial institutions, particularly mechanisms for assisting guaranteed lending. Current projects also emphasize the development of new mechanisms to meet specific needs not adequately addressed by the Revolving Fund's original approaches and mechanisms. Securitized trade finance and venture capital funds are two examples.

EVALUATIONS

While continuing to expand its Revolving Fund portfolio and further develop appropriate financing mechanisms, the Bureau has also undertaken an evaluation of some of its early loans. As part of that effort, evaluations were conducted of nine (9) PRE investment activities (some of which were pre-Revolving Fund) in order to identify and consolidate "lessons learned" and to formulate operational guidelines to assist Missions which are considering investments with the private sector. The results confirm the feasibility of using private commercial banks and the financing mechanisms used by PRE to achieve private sector development objectives. The evaluations also point to the value of the Revolving Fund as a means of initiating certain forms of private sector activity. Summaries of six (6) of the projects are provided below, together with their impact and some of the "lessons learned."

<u>THAI DANU BANK (Thailand)</u>: In FY 1985, the Bureau for Private Enterprise executed a $2.35 million Revolving Fund guarantee facility for the Thai Danu Bank (TDB) in Thailand. The guarantee covers 50 percent of the credit risk, on a transactional basis, of Thai Danu Bank's loans to small and medium-scale businesses outside the Bangkok metropolitan area.

A total of 76 loans have been made by TDB under this facility. The average loan was just over $60,000 and was lent at market rates of interest. Businesses used the loans primarily to invest in new production technologies and capital goods. All of the loans resulted in substantial increases in sales and employment outside the Bangkok metropolitan area. The creation of more than 600 jobs can be attributed to this activity.

At the inception of this loan TDB was inexperienced in lending to small businesses in rural areas. Over the course of the loan term, however, it gained significant expertise in identifying and managing small business loans and subsequently increased substantially its lending to such enterprises. The project also provided a successful model for the design of a larger A.I.D. Mission-financed credit program in Thailand.

BANCO DE DESAROLLO FINADE, S.A.(Dominican Republic): In FY 1984, the Bureau for Private Enterprise provided a $2 million Revolving Fund guarantee facility to cover 50 percent of the credit risk of Finade's short-term working capital loan program. The project targeted businesses with fixed assets of less than $1 million which were engaged in the export of non-traditional products. Finade's short-term export credits were provided in local currency.

The investment resulted in the generation of foreign exchange income for exporters of non-traditional goods. As a result more than 1,000 jobs were created in export-related industries. It facilitated Finade's execution of nine (9) sub loans to small and medium sized exporters. These loans would not otherwise have been provided to these businesses. Further, the investment provided liquidity during a period when credit markets were tight and working capital loans were generally not available.

FAR EAST BANK & TRUST COMPANY (Philippines): In FY 1985, the Bureau for Private Enterprise established a $2.0 million Revolving Fund facility to guarantee 50 percent of the credit risk, on a transactional basis, of Far East Bank and Trust Company's export trade credits to small and medium sized businesses. Far East Bank and Trust is the second largest bank in the Philippines and traditionally lends to very large Filipino companies and multinational corporations. The loan provided a substantial stimulus to the bank's involvement with SMSE economic activities during a period of uncertainty and recession in the Philippine economy and encouraged competition and market efficiency in export credit markets. Further, it financed over $60 million in export earnings.

LEATHER INDUSTRIES OF KENYA (pre-Revolving Fund): The Bureau for Private Enterprise provided the Leather Industries of Kenya (LIK) with a $1.4 million ten year loan. This loan was part of a $9 million investment package financed by a group of Kenyan and international investors to build a processing plant for manufacturing finished leather. The plant created a market for locally-produced hides and provides materials for an expanded leather manufacturing industry.

LIK currently produces 13 percent of Kenya's finished hides. It employs over 400 rural Kenyans directly and provides sizeable indirect employment through hide production. The LIK project is responsible for the introduction of modern tanning technologies to Kenya, and has resulted in improved animal husbandry practices among LIK's suppliers. Moreover, the environmental protection requirements incorporated in the project resulted in the installation of a sewage treatment facility at the plant that is now a national model for industrial toxic waste control. From the USAID Mission's perspective the project has had an additional benefit - developing a close working relationship between USAID/Kenya and Investment Promotion Services, an important private sector business development company in Kenya.

WAFABANK (Morocco): In FY 1985, the Bureau for Private Enterprise created a $2.5 million Revolving Fund collateral account facility, matched by $2.5 million from Credit du Nord, a French bank, to provide export credits through Wafabank in Morocco. These credits were given to small and medium-sized Moroccan businesses to finance their industrial imports.

The loan has increased the availability of foreign currency credit in Morocco by $5 million during a period when import credit was not readily available to small and medium-scale businesses. A total of $10 million in import credits was extended to businesses during the first two years of the loan.

In addition, the project stimulated economic activity by reducing delays in raw material deliveries.

This loan facility prompted an adjustment by the Moroccan Central Bank of its foreign exchange policies which had been restricting import financing. The Central Bank modified its restrictive policies as a direct consequence of the success of the facility. The guarantee facility also encouraged Credit du Nord to resume import financing activities in Morocco, a market from which it had previously withdrawn.

KENYA COMMERCIAL FINANCE CORPORATION (pre-Revolving Fund): In FY 1983, the Bureau for Private Enterprise provided a $2.5 million direct loan to the Kenya Commercial Finance Corporation (KCFC) for long-term lending to indigenous small and medium-scale rural businesses, an area in which the bank had not previously been involved. KCFC matched the fund with $2.5 million in local currency. In addition, a $250,000 grant was provided by PRE to KCFC's parent corporation, Kenya Commercial Bank, to strengthen its small business advisory service.

The KCFC loan fund was fully disbursed to the target group of small and medium-scale agribusinesses. Seventy-five percent of the loans went to finance new enterprises. Several loans were provided to existing businesses that had never received commercial credit before the PRE loan. Project loans resulted in considerate increases in the output of agricultural goods. The evaluation concluded that the loan stimulated interest among Kenyan financial institutions in providing long-term credit to small-scale enterprises. The project also served as a successful model for a $25.0 million follow-on small business credit project financed by the USAID Mission in Nairobi. This follow-on project involves numerous private commercial banks in Kenya.

Lessons Learned

A result of the 1987 evaluations has been the development of specific "lessons learned" which will assist PRE in refining its use of the Revolving Fund. Some lessons are set forth below:

- Project design must be adaptable, to permit rapid response to changing circumstances.

- The existence of a strong, competent local intermediary organization is vital to the success of Revolving Fund projects.

- In most cases, loan guarantees are more appropriate and effective than direct loans.

- Only intermediate financial institutions that possess a branch bank network should be considered in the implementation of private sector credit programs in rural areas. This was the case in each of the successful loan facilities evaluated.

- There is normally a direct relationship between the "additionality" of credit programs and their inherent risk.

- The extent of a loan's development impact is heavily influenced by the nature and extent of it's vertical and horizontal linkages.

- The true impact of Revolving Fund projects is most appropriately assessed with regard to their consequences for the evolution and change of the institutions involved in the program.

- A loan facility's success, with respect to its implementation, monitoring and overall effectiveness within a developing country, directly correlates to the extent that it complements a USAID Mission's private sector strategy and program.

STRATEGY

During FY 1987 three major themes were emphasized in the development and growth of the Revolving Fund portfolio and it is anticipated that these themes will continue to be given emphasis in future years: (1) the development of innovative financial mechanisms; (2) the encouragement of joint collaboration between PRE and the bilateral USAID Missions in the design and/or financing of loan facilities; and (3) the promotion of greater involvement by the U.S. private sector in Revolving Fund activities.

Innovative Financial Mechanisms

In FY 1987, emphasis was placed on developing financial instruments that minimize the foreign exchange risk to the Revolving Fund and that remain consistent with the R&D and replicability roles of the Revolving Fund.

Examples include the origination of a syndicated securitized trade financing facility in Turkey which mobilized $10 million of capital from the U.S. for pre-export financing requirements of small and medium-sized Turkish companies; Revolving Fund participation in the establishment and financing of Thailand's first indigenous venture capital company, Business Venture

Promotion, Ltd.; and a direct loan to NovaGene R&D Ltd Partnership, a Texas-based biotechnology research company expanding its research and commercialization activities in Asia. It is intended that these mechanisms be used as models by the bilateral USAID Missions as they develop similar programs in other developing countries.

Mission Collaboration and Co-financing

Involvement of bilateral USAID Missions in Revolving Fund investment design and financing is a central objective of the Revolving Fund. In FY 1987, five of the seven investments made were co-designed and three were co-financed with USAID missions. PRE intends to develop Revolving Fund projects which further complement bilateral mission policy reform and other private sector activities.

Greater Involvement of U.S. Private Sector

The increased role that U.S. companies can have in Revolving Fund investments is another strategic thrust evident in FY 1987. In Thailand, the venture capital company in which PRE invested is identifying new or expanding Thai companies capable of commercializing U.S. technologies. A U.S. business joint venture fishing operation in Mauritius will draw extensively on U.S. technology, management and financing in developing a viable tuna canning operation. The NovaGene R&D Ltd Partnership, a U. S. partnership, will promote U.S. technology transfer while affecting swine disease control in the ASEAN region.

The Private Sector Revolving Fund utilizes two general types of loan instruments. These are loans or guarantees made to private intermediate financial institutions (IFIs) located or operating in a targeted LDC country and loans made directly to a private LDC enterprise or to joint venture operations between private LDC enterprises and U.S. businesses.

New IFI loans and loan guarantee risk sharing programs have been developed which minimize the foreign exchange risk to the Revolving Fund and take into account the inappropriateness of dollar loans for borrowers who are not net foreign exchange earners. Investments with IFIs normally take two forms. The first is a loan made directly to the IFI which, in turn, matches the PRE loan in local currency, forming a pool of funds for subsequent lending to an investment in local private enterprises. The second form of loan serves as collateral to guarantee a portion of the risk of subloans made by the IFI with its own funds. In both cases, the IFI provides all administrative support including subloan application review and approval, implementation, and monitoring.

The guarantee technique has been used in FY 1987 to induce indigenous commercial banks to extend working capital and term loans to small and medium-sized businesses in the export sector, the agribusiness sector and micro-businesses. Additional applications being explored of the loan/guarantee technique include its use in support of placement of financial instruments by private financial institutions in the LDC capital market and to mobilize long-term local currency for indigenous private financial institutions from local affiliates of U.S. corporations.

At the end of fiscal year 1987, the Revolving Fund portfolio included 25 IFI loans or 83 percent of the current portfolio of projects and 84 percent in terms of loan principal.

Direct loans are a less frequent loan investment mechanism for the Revolving Fund. This is due to the foreign exchange risk potential, the difficulties associated in day-to-day monitoring and the desire of the Revolving Fund to develop new and innovative loan models for replication elsewhere within A.I.D. In FY 1987, two direct loans were made - to a joint venture R&D project in Asia (NovaGene) and a co-financed commercial fishing operation in Mauritius (Trident Foods), both of which draw extensively on U.S. technology transfer.

Thus far, the Revolving Fund has made five direct loans, comprising 17 percent of the portfolio by number of projects and 16 percent in dollar terms.

The geographic diversity of the Revolving Fund portfolio reflects both the varying investment instruments utilized by the Revolving Fund as well as the wide range of borrowers. The addition of seven new loans in FY 1987 brought the Revolving Fund to its current level of 30 loans totalling $60.05 million. A description of FY 1987 loans by region follows.1/

At the end of the fiscal year, the geographic distribution of the Revolving Fund portfolio was as follows:

Geographic Distribution

Region	Loan Amount	Portfolio Percentage
ASIA/Near East	$33.25MM	55%
LATIN AMERICA/CARIBBEAN	14.85	25
AFRICA	10.75	18
WORLDWIDE2/	1.2	2
	$60.05	100%

1/ See Annex B for detailed description of FY 1987 Fund Projects.

2/ Includes Multifoods Revolving Credit Facility project, worldwide, with initial emphasis in the Latin America/Caribbean region.

REGIONAL SUMMARIES

Region/Country	Project Amount (in millions)	Portfolio Percentage
Asia/Near East		
Thailand	$ 9.1MM	15%
Philippines	8.9MM	15
Indonesia	6.1MM	10
India	3.0MM	5
Turkey	2.4MM	4
ASEAN Region	2.0MM	3
South Pacific LGF	1.75MM	3
	$33.25MM	55%
Latin America/ Caribbean		
Ecuador	$ 4.3MM	8%
Regional	3.45MM	6
Guatemala	3.0MM	5
Bolivia	2.0MM	3
Dominican Republic	2.0MM	3
Antigua	0.1MM	0
	$14.85MM	25%
Africa		
Morocco	$ 4.5MM	8%
Sub-Sahara (EDESA)	2.0MM	3
Mauritius	2.0MM	3
Agribusiness	1.25MM	2
Kenya	1.0MM	2
	$10.75MM	18%
Worldwide	$ 1.2MM	2%
	$ 60.05MM	100%

ASIA/NEAR EAST

The Asia/Near East region continues to represent the largest portion of the Fund's portfolio and most mature financial markets for developing innovative loan instruments. Specific objectives of the Private Sector Revolving Fund for the region are to increase access and utilization of on-shore and off-shore capital markets, mobilization of short and long term domestic liquidity, transfer of technology and increase initiatives in trade and investment.

In FY 1987 four of the seven new loans were in the Asia/Near East region, representing $9.15 million of the $15.15 million obligated during the fiscal year.

(1) NovaGene Partnership Group: Direct Loan

A $2.0 million loan to a U.S. based biotechnology research company will increase the regional commercialization of the first USDA approved genetically engineered vaccines for the control of fatal swine diseases. Economic losses of indigenous pork producers will be lowered, and U.S. technology transfer and in-country skills development will result from the loan.

(2) Business Venture Promotions, Ltd. IFI

A $3.0 million loan supports the establishment of Thailand's first venture capital company. Under the loan, a consortium of six Thai financial institutions ("Business Venture Promotions, Ltd.") will make equity investments in indigenous projects of small and medium sized entrepreneurs that promote agribusiness development and technology transfer.

(3) Securitized Trade Loan Guarantee

Under the $2.4 million fund loan guarantee program, A.I.D., in consortium with four international commercial banking institutions, will provide loan guarantee coverage to small and medium-sized Turkish enterprises. The program will serve to guarantee trade and pre-export activities.

(4) South Pacific Loan Guarantee Facility: Loan Guarantee

The $1.75 million loan guarantee facility will increase the availability of short and medium-term credit in ten South Pacific countries. The Revolving Fund will guarantee up to 50% of the principal amount of loans on-lent through the Westpac Banking Corporation and other local lending banks to small and medium scale private enterprises.

The Asia/Near East region has proven to be a region where a high level of innovation in Revolving Fund activities can occur. In addition to expanding the coverage of investment instruments which have proven successful, new concepts will continue to be examined. These include trade financing, securitization, debt swaps and greater utilization of local currency resources.

LATIN AMERICA/CARIBBEAN

Latin America and the Caribbean region is characterized by USAID Missions with broadly developed private sector programs. As a result, the focus of the Revolving Fund's activities in this region has been the joint development of financial instruments with bilateral Missions.

In FY 1987, one investment was made in the Latin America and Caribbean region, representing $3.0 million of the $15.15 million obligated during the fiscal year.

Guatemalan Loan Guarantee Facility: IFI

The $3.0 million Revolving Fund loan co-finances with the bilateral USAID mission an $8.5 million guarantee facility which will extend medium and long-term credit to small and medium sized artisans, farmers and companies in the agro-industrial and industrial sectors. The guarantee facility is being made available through three Guatemalan financial institutions.

AFRICA

The Africa region portion of the Fund portfolio has grown substantially in the last two years. Although the Revolving Fund included no African investments up through FY 1985, the Africa region now comprises 18% of the Fund's activities.

In FY 1987, two of the new loans were in the sub-Saharan Africa region, representing $3 million of the $15.15 million obligated during the fiscal year.

(1) Trident Foods, Ltd.: Direct Loan

A $2.0 million loan is helping to establish a commercial fishing and tuna processing operation in Mauritius. This joint venture involving U.S., Mauritian and Australian business interests will draw upon U.S. technology and skills.

(2) Diamond Trust of Kenya IFI

Under the $1.0 million loan guarantee program, medium-term credit will be extended to small and medium scale enterprises. The facility will mobilize capital resources from a Kenyan non-bank financial institution new to the provision of credit to smaller enterprises.

Although the African region is a more difficult area for the Revolving Fund given nascent financial markets and the extensive role of parastatal financial institutions, direct loans similar to the new loan in Mauritius are proven investment instruments and will continue as a major mechanism of Fund activity in Africa. The Fund will also continue to examine financial instruments such as debt swaps and loan guarantee programs as the Bureau seeks to increase the Fund's role in the process of strengthening the private sector in this region.

During FY 1987, the Revolving Fund originated seven loans totalling $15.15 million. The total portfolio of investments represents total loan commitments of $60,050,000. The average loan size is $2 million, reflecting an average maturity of six years with an average grace period of two years.

Presented in Annex C to this report are a Balance Sheet (Exhibit A), Comparative Income Statement (Exhibit B), Statement of Funds Available and Utilized (Exhibit C) and Notes to Financial Statements (Exhibit D). Annex D contains a presentation of the overall portfolio.

While annual financial statements are prepared for the Revolving Fund, as required by the U.S. Treasury, this Annual Report includes complete financial statements with accompanying comparisons. These statements were prepared on the basis of accrual accounting methods as of September 30, 1987.

ANNEX A

REVOLVING FUND LEGISLATION

The requirement for the Annual Report is stated in Section 108(b) of the Foreign Assistance Act of 1961, as amended:

> "Not later than December 31 of each year, the President shall submit a comprehensive report which details all projects funded under this Section during the previous fiscal year, all reflows to the revolving fund account, a status report on all projects currently contained in the fund's portfolio. Such reports shall include, but not be limited to, information regarding numbers and kinds of beneficiaries reached, amounts and kinds of benefits provided by the funded projects to targeted populations, and a justification for projects within the context of the goals and objectives of the United States development assistance program."

The information contained in this report complies with this statute and provides an overall summary of the activity of A.I.D.'s Private Sector Revolving Fund during fiscal year 1987.

The Private Sector Revolving Fund was established by the International Security and Development Authorizations Act of 1983 (Section 101(b)(2) of the Further Continuing Appropriations, 1984, Public Law 98-151), signed on November 14, 1983, and incorporated as Section 108 of the Foreign Assistance Act of 1961, as amended.

The statute set forth certain requirements for private sector revolving fund projects. Specifically the projects must:

-- be consistent with U.S. development assistance programs and host country priorities;

-- serve as models for replication in other countries;

-- be innovative and financially viable;

-- carry development impact, especially in employment and appropriate technology, tailored to the country involved;

-- be directed primarily to small businesses and provide services not otherwise available;

-- provide not more than $3 million in A.I.D. funds per project and finance not more than 50 percent of the total cost; a substantial amount of the funding must be provided from private sources within the project country;

- -- commit not more than 20 percent of the fund's assets to any one country;

- -- provide loans primarily to intermediate institutions serving the private sector; and

- -- charge interest rates at or near those otherwise available to the borrower.

ANNEX B

1987 Project Descriptions

ASEAN Region

NovaGene Partnership Group
Project Number: 940-0002.76
Loan Number: 498-S-003
Authorization Date: September 29, 1987
Type: Direct Loan ($2 million)

NovaGene, Inc. a Houston, Texas, biotechnology research company, seeking to help reduce and eradicate the devastating economic losses caused by the effects of pseudorabies and hog cholera in developing countries, intends to form a research and development limited partnership within the ASEAN region. Currently, infected swine are either not vaccinated which results in high mortality rates or vaccinated with "live" products which quite often inadvertently induce the diseases and/or unwanted side effects.

The partnership will operate with a threefold purpose: (i) the regional commercialization of the first USDA approved genetically engineered hog pseudorabies vaccine for prevention of herpes virus in swine; (ii) the final stage of research and development and subsequent production and marketing of a genetically engineered hog cholera vaccine, a related follow-on product, and (iii) the commercialization of a single, combined genetically produced hog cholera and pseudorabies vaccine.

Development Impact

Control of two fatal swine diseases is targeted. In addition, the transfer of state-of-the-art genetic animal vaccine biotechnology to a developing country will stimulate the growth of indigenous medical expertise upon which a broader product mix may evolve. The economic losses suffered by pork producers will be reduced which, in turn, makes more meat available for local consumption or export. Local manufacture of vaccine within an Asian LDC will also have an element of job creation.

Asia

Business Venture Promotions Ltd.
Project Number: 940-0002.71
Loan Number: 493-S-045
Authorization Date: March 11, 1987
Type: Intermediate Financial Institutions ($ 3 million)

This loan supports the first venture capital company in Thailand. A consortium of six Thai financial institutions, Business Venture Promotion, Ltd. will make equity investments in projects involving the transfer of innovative technologies to Thailand with an emphasis on agribusiness and U.S. technology. The company will identify new or expanding companies capable of commercializing the proposed technology preferably of U.S. origin. Further, the company may arrange the debt and equity capital requirements necessary for the successful implementation of a project.

Development Impact

This is a capital markets project which is compatible with Thailand's Sixth National Developmental Plan by supporting new technologies that strengthen Thailand's agribusiness processing, product and management sectors. Recipients of the project funds will be small- and medium-size entrepreneurs who otherwise would not have access to equity capital.

BVP will mobilize domestic savings to be channeled into new investment projects. These projects will eventually apply for listing on the Securities and Exchange of Thailand, further enhancing capital markets development activity.

Many projects are expected to be export oriented, generating foreign exchange for Thailand.

Africa

Diamond Trust of Kenya
Project Number: 940-0002.73
Loan Number: 615-S-023
Authorization Date: July 28, 1987
Type: Intermediate Financial Institution ($1 million)

This project is intended to mobilize much needed medium term credit to a long neglected business sector in Kenya - the small and medium scale enterprise. Often deemed ineligible for longer term bank credit, targeted business activities include agriculture, agribusiness, light manufacturing, commercial and services business, particularly those located outside urban areas.

Operated as a guarantee facility, a U.S. bank issues standby Letters of Credit in favor of Diamond Trust to guarantee 50% of the principal amount of the loans to qualifying subborrowers.

Development Impact

This loan guarantee facility mobilizes capital resources from a non-bank financial institution which, heretofore, has not provided significant credit facilities to small-scale enterprises. It complements a USAID/Kenya Rural Private Enterprise program which channels credit through the commercial banking system. It is anticipated that many of the subborrowers will be first-time customers in the formal commercial credit system, contributing to private sector growth potential on the small- and medium-size enterprise level.

Latin America

Guatemalan Loan Guarantee Facility
Project Number: 940-0002.74
Loan Number: 520-S-046
Authorization Date: September 29, 1987
Type: Intermediate Financial Institution

In this project PRE and USAID/Guatemala have jointly targeted the extension of medium and long term credit to small- and medium-sized artisans, farmers, and companies in the agro-industrial and industrial sector. Of particular interest are those companies seeking growth through transfer of technology and non-traditional export expansion.

Initially, three Guatemalan financial institutions will participate in this $8.5 million guarantee facility. Under PRE's $3 million component, its loan to a U.S. bank serves to guarantee up to 50% of the principal amount on-lent by the local lending banks to qualifying subborrowers. All loans will reflect commercial terms and conditions. USAID/Guatemala's $5.5 million will underwrite a local currency private sector trust fund which will assume the same obligations as the U.S. Letters of Credit issued under PRE's facility.

Development Impact

Small- and medium-sized enterprises in most developing countries are traditionally denied access to credit for three reasons: insufficient collateral resources to cover the bank's perceived increased risk; the limited ability or willingness of banks to assess the risk; and the reluctance of banks to assume the expensive burden to process and administer the loan. This project attempts to address these lending obstacles. Technical assistance programs being designed in tandem with this project will include project financing, training and development of non-traditional finance instruments.

Near East

Securitized Trade
Project Number: 940-0002.56
Loan Number: 277-S-160
Authorization Date: December 12, 1986
Type: Intermediate Financial Institution

This project offers an innovative trade financing technique for Ram Dis Ticaret, an export financing arm of a Turkish holding company involved in the exporting of products sourced from small- and medium-scale enterprises. The proceeds of a US$10 MM bond facility raised by US institutional investors has been used to finance trade transactions and pre-export activities of private sector SMSEs in Turkey.

This is a guarantee facility in which A.I.D., along with four commercial banking institutions, has agreed to guarantee 100% of the principal amount on-lent to qualifying SME subborrowers.

Developmental Impact

Trade credit available to SMSE exporters has been expanded, resulting in increased employment and foreign exchange earnings. This financing was successfully sourced outside the traditional and more expensive Eurocurrency market. In addition, capital markets activities are being enhanced as the host country is introduced to a lower cost method of export financing. This illustrative project in an ADC will be evaluated for replication in an LDC.

South Pacific

South Pacific Loan Guarantee Facility
Project Number: 940-0002.68
Loan Number: 879-S-001
Authorization Date: February 4, 1987
Type: Intermediate Financial Institutions

This project consists of lending short and medium term credit to small- and medium-scale enterprises (SMSEs) in ten South Pacific countries. Expansion of the private sector base has become a development priority in these island countries, yet the necessary bank credit to carry out this goal has not been available. Traditionally, SMSEs have relied on family-financial resources to start up and operate their businesses. Now a pool of funds will be available to encourage private sector development, agriculture and fisheries.

A.I.D. through the Westpac Banking Corporation will guarantee 50% of the principal amount of the loans on-lent through local lending banks to qualified subborrowers.

Development Impact

Significant employment generation and private sector development is expected under this guarantee facility. Institution building will be present as local lending banks extend quality credit to a sector of customers previously considered ineligible. Many subborrowers will be working with the formal banking system for the first time, offering them a more attractive and financially sounder way to finance their businesses. This is the first time the revolving fund has entered into a multi-national IFI guarantee facility.

Africa

Trident Foods, Limited
Project Number: 940-0002.70
Loan Number: 642-S-001
Authorization Date: February 9, 1987
Type: Direct Loan

This loan establishes a high-seas fishing and tuna processing operation in Mauritius. Three fishing vessels and other third party fishing boats will supply raw tuna from the Indian Ocean to a 10,000 ton cannery. All products will be exported to Europe where there are no U.S. exports of processed tuna.

This is a joint venture involving Mauritian, United States and Australian business interests. The Overseas Private Investment Corporation (OPIC) joins A.I.D. in providing investment financing for the project.

Development Impact

This project sponsors private investment activity in consonance with the regional USAID strategy of private sector development. An additive effect will be considerable employment generation in the areas of fishing, plant operation, and the ancillary activities associated with the operation of the core project.

The operation of a modern canning facility in a developing country not only transfers needed technology but upgrades the skills base of its population.

The processed product will be 100% exported, thus earning valuable foreign exchange for the country.

ANNEX C

FINANCIAL STATEMENTS

Exhibit A

PRE/I Revolving Fund
Balance Sheet
as of September 30, 1987
(In Thousands)

Assets

Fund Balance with Treasury and Cash - Exhibit C	$40,859
Investments - Short-term U.S. Government Obligations (at amortized cost, which approximates market value)	$ 3,558
Total Loan Commitments	$60,050
Less Undisbursed and Repayments	41,907
Loans Outstanding - Notes A & B	$18,143
Accrued Interest on Loans	307
Total Assets	$62,867

Capital

Appropriated Capital	$61,000
Accumulated Earnings - Exhibit B - Notes A & B	1,867
Total Capital	$62,867

Exhibit B

Comparative Statement of Income
For the Fiscal Years Ended September 30, 1985,
September 30, 1986 and September 30, 1987
(In Thousands)

	1985	1986	1987	Cum. Total
Operating Income				
Income From U.S. Government Obligations	$ -0-	$ 17	$ 91	$ 108
Income From Loan Investments:				
Interest	56	661	832	1,549
Fees	32	80	98	210
Net Income - Exhibit A	$ 88	$758	$1,021	$1,867

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

Exhibit C

PRE/I Revolving Fund
Statement of Funds Available and Utilized
For the Fiscal Years 1984, 1985, 1986 and 1987
(In Thousands)

	Fiscal Year Ended September 30,				
	1984	1985	1986	1987	Cum. Total
Funds Available					
Fund Balance - Beginning	$ -0-	$14,500	$27,398	$34,255	$ -0-
Appropriated Capital	14,500	16,000	15,000	15,500	61,000
Net Income - Notes A & B	-0-	88	758	1,021	1,867
Loan Principal Repayments	-0-	-0-	-0-	2,028	2,028
Non-cash Increase in Accrued Income	-0-	-0-	(326)	(31)	(357)
Total Funds Available	$14,500	$30,588	$ 42,830	$52,773	$64,538
Funds Utilized					
Loan Disbursements	$ -0-	$ 3,106	$ 8,240	$ 8,825	$ 20,171
Increase in Treasury Bills (at Cost)	-0-	84	335	3,089	3,508
Total Funds Utilized	$ -0-	$ 3,190	$ 8,575	$11,914	$ 23,679
Ending Fund Balance - Exhibit A	$ 14,500	$27,398	$ 34,255	$40,859	$ 40,859

(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, 1987

Note A - Due to the limited financial history of the Revolving Fund, a provision for losses on loans outstanding has not been made and therefore is not reflected in the Fund's financial statements as of September 30, 1987. In December 1987, the Fund managers did determine, in consultation with the Office of the Controller, Loan Accounting Division, that such a provision for losses is necessary.

In Fiscal Year 1988, a provision for losses for Fiscal Years 1985 through 1987 will be made totaling $651,912. This charge will be reflected in the accounting records as a direct charge to the Fund's Accumulated Earnings of $1,867,370 and will decrease Accumulated Earnings as of September 30, 1987 to $1,215,458. This direct charge to accumulated earnings is being made so as to not distort FY 1988 operations which will be charged with an additional provision for losses of 2% of the loans outstanding as of September 30, 1988.

For the future, the Fund managers have adopted a policy for charging operations with a provision for losses of 2% of the loans outstanding at each year end. This is the same basis as used in computing the $651,912 charge noted above. This loss rate of 2% was determined based on the Fund's limited experience to date and in reference to procedures and practices of the International Finance Corporation (an affiliate of IBRD and IDA) who conduct international loan operations somewhat similar to those of the Fund.

Note B - Actual losses on loans outstanding when written off will be charged directly to a Reserve for Losses and recoveries will be credited to the Reserve. In this regard, the Fund managers are currently reviewing three loans included in their September 30, 1987 loan portfolio that exhibit a strong loss potential totaling $704,651. Two of these potential losses totaling $224,138 appear to be uncollectable as of December 1987 and probably will be charged to the reserve for losses in FY 1988. The other potential loss of $480,513 is currently being reviewed by the Department of Justice to determine what borrower resources are available and whether legal action should be instituted to effect loan recovery. Upon completion of the Justice review, any portion of the loan deemed unrecoverable will be charged to the reserve for losses.