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INVESTMENT OPPORTUNITY PROPOSAL
FOR THE
REVOLVING FUND

US\$2,000,000 LOAN GUARANTEE FACILITY
US\$100,000 TECHNICAL ASSISTANCE GRANT

TO BE ADMINISTERED BY
PAN AMERICAN DEVELOPMENT FOUNDATION
FOR THE BENEFIT OF
SELECTED NATIONAL DEVELOPMENT FOUNDATIONS
IN THE LATIN AMERICA AND CARIBBEAN REGION

AGENCY FOR INTERNATIONAL DEVELOPMENT
BUREAU FOR PRIVATE ENTERPRISE
JULY 1988

INVESTMENT OPPORTUNITY PROPOSAL
FOR
THE REVOLVING FUND

LOAN GUARANTEE FACILITY
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I. EXECUTIVE SUMMARY

The Project

1.01 The Agency for International Development's Bureau for Private Enterprise (PRE) proposes to establish on behalf of the Pan American Development Foundation (PADF) a micro-enterprise loan guarantee facility to be accessed by eligible National Development Foundations located in A.I.D. assisted countries throughout the Latin America and Caribbean Region. The five-year guarantee facility, to be capitalized by PRE's Private Sector Revolving Fund at an initial level of US\$2 million, is designed to stimulate the extension of productive credit to small and micro enterprises by commercial lending institutions in selected countries within the LAC Region.

The guarantee will take the form of standby letters of credit (L/Cs) to be issued in favor of local lending institutions by a U.S. commercial bank to whom A.I.D. has extended a loan for like tenor and amount.

At the host country level, the local lending institution may have the option of either extending a loan (or loans) to an NDF which in turn on-lends to the small or micro entrepreneur or, alternatively, it could extend credit to the ultimate beneficiary directly, relying on the NDF for administrative guidance and technical assistance in the selection of the credits to be extended. Extension of micro-credit activities carried out under the auspices of the NDF is intended to be done in such a manner that the standby letter of credit is, in fact, never actually drawn upon, except as a result of institutional failure or bankruptcy on the part of the intermediary NDF. In the event of any individual subloan default, it is assumed that the NDF responsible for the credit will initiate whatever action might be necessary to obviate any need for the commercial lending institution to draw under the letter of credit by drawing against its internal resources to cover any deficiencies.

By allowing qualified NDFs to fund their small and micro credit lending activities with commercially generated funds, the proposed guarantee facility would enable the NDFs to preserve their scarce grant and soft-sourced resources and to apply the resulting savings toward creation of permanent endowments, the income from which should help offset administrative overhead and training expenses. Properly managed and preserved, healthy

endowment levels should ultimately satisfy the NDF's capital adequacy requirements, mitigating the need for third party guarantees altogether. This process represents a major opportunity for NDFs to reduce or eliminate their dependency on external subsidies and contribute to their long-stated objective of attaining economic self sufficiency.

This project will complement the continuing effort by PADF to strengthen NDFs and expand their provision of technical assistance and training. The proposed project builds on the extensive previous support that the NDFs have received from A.I.D. directly and through PADF. Only those NDFs that have been independently evaluated and whose performance has been judged favorably will be deemed eligible to participate under the scheme.

Development Benefits

- 1.02 The importance of credit to reach micro and small businesses throughout Latin America and the Caribbean is critical to the region's economic prosperity and political stability. Recent studies attest to the greater dynamism of small enterprises and their comparative advantage in employment creation. Allowing all social classes to participate in the economy spreads the benefits of the development process and increases the investment of lower social groups in political stability. Despite their economic benefits, micro entrepreneurs have been historically excluded from the commercial banking system and from the traditional private sector in general. As a result, they have been forced to pay usurious daily interest rates to unofficial creditors.

Despite the recent recognition of the importance of the informal sector in Latin America and the Caribbean, its position relative to the rest of the population has declined dramatically as a result of the deteriorating macro economic environment in most of the developing world. Several recent studies and forums have focused on the way the poor in particular have suffered disproportionately from the political economy of the 1980s, characterized by structural adjustment, stagnant market growth, weak commodity prices and the consequent imposition of austerity measures and currency devaluations. Small and micro enterprises have nevertheless demonstrated extraordinary resilience under the circumstances and continue to account for a substantial portion of regional goods and services generated.

The development benefits of a guarantee fund to expand the reach of NDFs goes beyond employment, increased incomes, and greater equity. If crafted and managed within the proper framework, a

guarantee fund can assist the NDFs in making fundamental strides toward changing attitudes entrenched among commercial banks about the attractiveness of small scale lending. A guarantee fund for small loans helps unite the informal sector with the mainstream private sector in Latin America, a long-standing goal of PADF. In a region where the legal borrower's greatest obstacle has been lack of access, rather than a fair interest rate, attitudinal changes among local commercial banks about their role in development must be seen as a development goal in itself.

In addition, if the guarantee fund can serve to substitute for other capital that would normally fund the NDFs micro credit portfolio it is, in effect, "buying time" which enables NDFs to create an endowment fund to cover administrative and other costs, such as technical assistance and training. With a successful track record and a healthy endowment the NDFs, over time, (perhaps even within the five-year scheduled completion date of this project) could eliminate the need for the Guarantee and external subsidies altogether.

Capitalization

- 1.03 In its initial phase, funding of the bank guarantee portion of this facility will be capitalized by A.I.D. by means of a loan from A.I.D./PRE to a U.S. commercial bank in an amount of up to \$2 million. The proceeds of this loan will serve to offset stand-by letters of credit issued by that commercial bank in favor of local lending institutions providing liquidity essential for the NDFs to make credit available to the ultimate end borrower.

Products

- 1.04 Subloans agreed by NDFs or NDFs and a local commercial bank to eligible micro and small enterprises. Maximum loan size will be determined in accordance with the lending policies of each participating NDF.

Risk

- 1.05 Credit approval and security (collateral) of sub-borrowers will be made by the respective NDF and/or local commercial bank depending on the scenario chosen. A.I.D./PRE may initially carry up to 90 percent of the total principal risk of the loan extended by the local lending institution, with the balance to be covered by the NDF exclusively or the NDF and the local lending institution.

Fees

Guarantee Fee	1.00% p.a. (payable by the NDF to A.I.D.)
SB/LC Fee	0.25% p.a. (payable by the NDF to the US Bank)
Admin. Fee	1.00% p.a. (payable by the NDF to PADF)

Project Timetables

1.06	Proposal/Project Paper	June 1988
	Loan Agreement negotiations	July/August 1988
	Loan agreement signing	August 1988
	First disbursement	September 1988

II TRANSACTION SUMMARY

2.01	<u>Amount</u>	US\$2,000,000
2.02	<u>Instrument</u>	A loan from A.I.D. to a U.S. commercial bank will serve to collateralize credit to a local commercial bank for each participating NDF. A.I.D./PRE will guarantee 90 percent of the principal value of the Guaranteed Loan portfolio. The balance of the credit risk not covered by the standby L/C shall be borne by the NDF exclusively or by the NDF and the local commercial bank.
2.03	<u>Interest Rate</u>	Equivalent to the rate on three month T-bills plus 1/2 of 1%.
2.04	<u>Fees</u>	(a) <u>Guarantee Fee</u> : 1.25% per annum payable by the NDF to A.I.D. in U.S. dollars semi-annually in arrears, calculated on the basis of the average outstanding balance of standby letters of credit issued and outstanding under the facility. (b) <u>L/C Issuance Fee</u> : Approximately 1/4 of 1% (exact rate to be negotiated) per annum payable by the NDF to the U.S. commercial bank (c) <u>Administration Fee</u> : 1/4 of 1% per annum payable by the NDF to PADF calculated on the basis of the average outstanding loans guaranteed by the standby L/C.
2.05	<u>Collateral Position</u>	A Standby L/C agreement will define the security interest of the L/C issuing bank.

- 2.06 Final Disbursement Date One year after loan execution.
- 2.07 Qualifying Borrowers Qualifying NDFs will provide financing to small and micro enterprises under prudent commercial lending policies and procedures acceptable to PADF and A.I.D./PRE. Such policies and procedures may be incorporated in the NDFs by-laws or set forth in guidance manuals endorsed by the NDF's board of directors or trustees. The definition of small and micro enterprises shall be consistent with generally accepted international development convention and terminology appropriate for the country involved. Under Scenario 2, qualifying borrowers will be entrepreneurs referred to the bank from the NDF, subject to both NDF and bank approval.
- 2.08 Matching Funds Loan funds guaranteed by this facility may represent not more than 50% of the total financial resources available to any given project or contributed by the ultimate end borrower. Evidence of the existence of such resources must be independently verified in a manner satisfactory the NDF, PADF and A.I.D./PRE.
- 2.09 Reporting Requirements NDFs will report quarterly to PADF and A.I.D./PRE on forms provided by A.I.D./PRE. PADF will submit annual reports to A.I.D./PRE on progress and performance of the fund. Local commercial banks will confirm the outstanding loan balances and subloan activity to PADF and A.I.D./PRE on an annual basis.

2.10 Grant

A.I.D./PRE will make available a grant of \$100,000 to PADF to provide technical assistance on designing and setting up local mechanisms with local banks, NDFs, and sub-borrowers. This will also include a review of technical assistance and training costs, interest rate policy, and fee structure of the NDFs. This grant will cover all salaries, travel and per diem of PADF's technical advisors and PADF's creation of a guarantee model to eventually be replicated with other NDFs.

2.11 Maturity

The principal balance of A.I.D./PRE's loan to the U.S. commercial bank will be amortized over a five-year term in four approximately equal semi-annual installments, the first of which will be due thirty-six months after the date of the first disbursement. Amortization of the standby letter of credit will track repayment of the underlying loan by means of reductions of the face amount of the standby L/C effective six months in advance of the corresponding payment under the loan.

III. LOAN GUARANTEE FACILITY PROCEDURES

- 3.01 A US\$2,000,000 loan from A.I.D./PRE to a prime U.S. bank which will then issue a standby L/C to a local commercial bank. The US commercial bank is not expected to carry any commercial risk of repayment and serves essentially to facilitate generation of a universally recognized and readily implemented guarantee mechanism. In Scenario 1 (See diagram) the local commercial bank will issue a single loan to an NDF which will apply the proceeds to fund subloans to eligible end-borrowers. In Scenario 2 (See diagram) loans will be made directly to clients by the local commercial bank referred by NDFs, who will also provide technical assistance and training at a fee paid by the client. Under either scenario, A.I.D. will receive an effective security interest in the assets of the borrower being financed.
- 3.02 Interest paid on the PRE loan will be tied to the yield on 90-day U.S. Treasury Bills plus an estimated 1/2 of 1% percent spread.
- 3.03 A.I.D./PRE anticipates disbursement of loan proceeds in multiples of US\$250,000 each with full utilization within twelve months from the date of execution of the loan agreement.
- An important premise of the Guarantee Facility is that the standby letter of credit will itself never have to be drawn upon but rather that the NDF, through prudent management of its internal financial resources will always be in a position to cover any potential default to a local commercial lending institution.
- 3.04 The interest rate charged to the NDF to be passed on to the ultimate end borrower, will reflect fees of 1.25% per annum levied by A.I.D./PRE, an estimated 1/4 of 1% payable to the Letter of Credit Issuing Bank and a 1% per annum administration fee levied by the PADF to cover its costs of delivering technical assistance and management services in connection with the implementation of the guarantee facility.
- 3.05 PADF will assist and encourage NDFs to work closely with local commercial lending institutions toward the objective of getting them to assume a greater share of the risk of lending to the NDFs target market thereby enabling the NDFs

to increase their leverage of financial resources released as a result of the guarantee facility. This effort is essential to the process of facilitating the transition of the NDF from essential dependency on external, usually subsidized, resources to self sufficiency and autonomous access to local capital sources.

- 3.06 Targetted initial disbursement date will be one month after loan execution.

Income Generating and Institution Building Program

Programa para Generar Ingresos y Desarrollar Instituciones

Since the 1960s PADF has supported the development of local, non-profit development institutions throughout Latin America and the Caribbean, encouraging cooperation between leaders of the traditional private sector and the enterprising poor in the informal sector.

Over 30 National Development Foundations (NDFs) provide technical assistance, training and credit to small businesses, low-income farmers and microentrepreneurs. Throughout 1987, PADF worked closely with leaders of the Central American and Caribbean NDFs to strengthen their institutions and expand their programs.

Since 1981 PADF's newer initiatives include assistance to farmers with attention on agroforestry, tree-cropping (cocoa) and the development of farmer organizations.

NDF Highlights

While older NDFs continue to focus on agricultural assistance, newer foundations place their em-

Desde la década del 60, la FUPAD ha apoyado el desarrollo en América Latina y el Caribe de instituciones locales de desarrollo, sin fines de lucro, promoviendo la cooperación entre dirigentes del sector privado tradicional y trabajadores de bajos ingresos del sector informal.

Más de 30 Fundaciones Nacionales para el Desarrollo (FND) ofrecen asistencia técnica, adiestramiento y crédito a pequeños negocios, agricultores y microempresarios. En 1987, la FUPAD trabajó estrechamente con dirigentes de las Fundaciones Centroamericanas y del Caribe con el fin de fortalecer sus instituciones y expandir sus programas.

Desde 1981, las iniciativas más recientes de la FUPAD incluyen asistencia a los agricultores en agroforestación, cosecha de árboles (cacao) y en el desarrollo de organizaciones de agricultores.

Rasgos Salientes de las FND

Las Fundaciones más antiguas centralizan sus actividades en asistencia agrícola, mientras que las más nuevas ponen énfasis en servir al amplio sector urbano informal. Los ejemplos siguientes ilustran el impacto creciente de estas instituciones.

En 1987, los fideicomisarios de la FUPAD y de la Fundación del Centavo (Fundación Guatemalteca para el Desarrollo) celebraron conjuntamente su 25o. aniversario y el legado común que les dejó Sam Greene. La Fundación del Centavo brinda apoyo a los pequeños agricultores y a los empresarios incipientes y, más recientemente, ha estado participando en la compra y redistribución de tierras.

La FUPAD está colaborando con dirigentes empresarios en el establecimiento de FUNDESPE (Fundación para el Desarrollo de la Pequeña Empresa),



PADF co-sponsored a forum in El Salvador on small and microenterprise development.

En El Salvador la FUPAD copatrocinó con FUSADES y FEDEPRICAP un foro sobre Desarrollo de la Pequeña y Microempresa.

phasis on serving the large, urban informal sector. The following examples illustrate the growing impact of these institutions.

In 1987 trustees of PADF and the Penny Foundation (Guatemalan Development Foundation) jointly celebrated their 25th anniversaries and the common legacy of Sam Greene. The Penny Foundation lends support to small farmers and emerging entrepreneurs. Most recently, it has been involved in land purchases and redistribution.

PADF is helping business leaders establish FUNDESPE (Foundation for Small Enterprise Development), to serve urban entrepreneurs and micro-businesses in Quetzaltenango, the second largest city of Guatemala.

The National Development Foundation of Jamaica, founded in 1981 with support of the Small Business Association of Jamaica, offers credit, business training and technical assistance to small businesses. Since 1981 the Foundation has made 1,576 new loans through its five offices valued at \$15,475,173 Jamaican dollars. A survey of the period 1982-1986 showed that 74 percent of the small enterprises financed grew steadily and achieved marked increases in sales and profitability. Over 6,400 new jobs have been created and more than 13,000 people have received technical assistance and training.

Other NDFs have demonstrated similar strengths in their programs. The National Development Foundation of Belize, which has been operational for only three years, disbursed 147 new loans in 1987 valued at 560,701.50 Belize dollars.

The National Development Foundation of Dominica has disbursed 517 loans valued at US\$60,770 and has created over 1,000 new jobs since 1981.

FUNADEH (The National Development Foundation of Honduras) in San Pedro Sula has achieved tremendous growth. In 1987, 322 loans were disbursed for lps \$2,099,250 as compared to some 150 loans in 1986.

In conjunction with Honduran business and trade associations, PADF also initiated the creation of CODEPE (Council for Small Business Development) to meet the needs of small-scale entrepreneurs in the capital city area of Tegucigalpa.

Forums and Seminars

As the phenomenon of private voluntary organizations expands throughout the hemisphere, PADF continues to sponsor and organize forums and seminars that allow international and regional donor and support organizations to exchange expertise and ideas with local private voluntary organizations (PVOs).

que atenderia las necesidades de empresarios urbanos y pequeños negocios en Quetzaltenango, la segunda ciudad de Guatemala.

La Fundación Nacional para el Desarrollo de Jamaica, establecida en 1981 con la cooperación de la Asociación de Pequeñas Empresas de Jamaica, ofrece facilidades de crédito adiestramiento comercial y asistencia técnica a las empresas de pequeña escala. A través de sus cinco sucursales, la Fundación ha otorgado, desde 1981, 1.576 préstamos nuevos por un valor de \$15.475.173 dólares de Jamaica. Una encuesta del período 1982-1986 muestra que 74 por ciento de las pequeñas empresas financiadas crecieron a un ritmo sostenido y lograron aumentos sustanciales en sus ventas y ganancias. Se han creado más de 6.400 oportunidades de trabajo y se ha dado asistencia técnica y adiestramiento a más de 13.000 personas.

Otras Fundaciones han demostrado una fortaleza similar en sus programas. La Fundación Nacional para el Desarrollo de Belice, que ha estado en operación por solo tres años, desembolsó, en 1987, 147 préstamos nuevos por un valor de \$ 560.701,50 dólares de Belice.

Desde 1981, la Fundación Nacional para el Desarrollo de Dominica, ha desembolsado 517 préstamos por un total de US\$ 60.770 y ha creado más de 1.000 oportunidades de trabajo.

FUNADEH, la Fundación Nacional para el Desarrollo de Honduras, en San Pedro Sula, ha logrado un crecimiento excepcional. En 1987, desembolsó 322 préstamos por un valor de 2.099.250 lempiras, en comparación con 150 préstamos en 1986. La FUPAD, junto con las asociaciones de empresas y comercio de Honduras, inició la creación de CODEPE (Consejo para el Desarrollo de la Pequeña Empresa) que atenderá las necesidades de los pequeños empresarios en Tegucigalpa, la capital.

Foros y Seminarios

A medida que se amplía en el hemisferio el fenómeno de las organizaciones privadas voluntarias, la FUPAD continúa auspiciando y organizando foros y seminarios que permiten un intercambio de conocimientos especializados e ideas entre las organizaciones internacionales y regionales donantes y de apoyo y las organizaciones privadas voluntarias locales (OPV).

En enero de 1987, la FUPAD organizó exitosamente el primer Foro Interamericano de Cacao, en San José, Costa Rica, junto con el Instituto Interamericano de Cooperación para la Agricultura (IICA), el Centro Agronómico Tropical de Investigación y Enseñanza (CATIE), el Instituto Americano para la Investigación del Cacao (ACRI) y la Oficina Regional para Centroamérica y Panamá de la Agencia para el Desarrollo Internacional de los EE.UU. (USAID/ROCAP).

Las presentaciones incluyeron técnicas modernas de plantación de cacao, prácticas de labranza, control de enfermedades y plagas, costos de producción y precios a nivel de la explotación agrícola y perspectivas del mercado mundial. Los 160 participantes, que incluían productores de cacao y grandes fabricantes de chocolate, exploraron las

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In January 1987 PADF successfully organized the first Inter-American Cocoa Forum in San Jose, Costa Rica, in conjunction with the Inter-American Institute for Cooperation in Agriculture (IICA), the Center for Tropical Agriculture Research and Education (CATIE), the American Cocoa Research Institute (ACRI) and the U.S. Agency for International Development Regional Office for Central America and Panama (USAID/ROCAP).

Presentations covered modern cocoa planting technologies, husbandry practices, disease and pest management, production costs and farm gate prices and world market outlook. Some 160 participants, ranging from cocoa producers to large chocolate manufacturers, explored the opportunities to revitalize and expand cocoa production as a cash crop throughout the tropical Americas.

In May 1987 PADF sponsored its third workshop on Basic Fundraising Skills and Techniques. This event, held in San Jose, Costa Rica, improved the fundraising skills of staff and members of 24 organizations from Central America. The workshop was conducted by PADF and the prominent Mexican fundraising specialist, Jesus Gonzalez Labastida.

A regional forum on Development of Small and Microenterprise was co-sponsored by PADF with FUSADES (Salvadoran Foundation for Economic and Social Development) and FEDEPRICAP (Federation of Business Entities of Central America and Panama) in September, 1987. Over 130 participants from Central America and Panama representing over 80 non-governmental organizations, associations of small-scale entrepreneurs and financial institutions attended this second PADF-initiated microenterprise forum.

President Jose Napoleon Duarte of El Salvador, Enrique Ghershi of the Institute for Liberty and Democracy in Peru, Jaime Carvajal of the Carvajal Foundation in Colombia and Eckhart Oehring of FUNDES in Switzerland were among the many outstanding guest speakers. Panel and plenary discussions conducted by specialists from regional and international development agencies covered financing, credit mechanisms, the role of the private sector and development models.

A Resource Exchange Forum - INNOVACION 87 - was organized by ASINDES (Guatemalan Association of Non-Governmental Development and Service Organizations) in conjunction with PADF and PACT (Private Agencies Collaborating Together). Held in Guatemala City in October, 1987, INNOVACION 87 brought together representatives from over 80 local Guatemalan non-governmental organizations (NGOs) and international agencies to exchange information and ideas about development

posibilidades de revitalizar y expandir la producción de cacao como un cultivo comercial en la América tropical.

En mayo de 1987 la FUPAD auspició su tercer taller sobre Procura-
ción de Fondos; Fundamentos, Técnicas y Habilidades, el cual se
llevó a cabo en San José, Costa Rica, y contribuyó a mejorar las
técnicas para recaudar fondos del personal y miembros de 24 organi-
zaciones de América Central. El taller fue dirigido por la FUPAD
y por Jesus Gonzalez Labastida, destacado especialista mexicano en el
tema de recaudación de fondos.

En septiembre de 1987, la FUPAD co-auspició con FUSADES
(Fundación Salvadoreña para el Desarrollo Económico y Social) y
FEDEPRICAP (Federación de Entidades Privadas de Centroaméri-
ca y Panamá) el Desarrollo de la Pequeña y Microempresa,
segundo foro regional iniciado por la FUPAD, que contó con 130
participantes de América Central y Panamá que representaban a
más de 80 organizaciones no gubernamentales, asociaciones de
pequeños empresarios e instituciones financieras.

Entre los oradores invitados cabe destacar a José Napoleón Duarte,
Presidente de El Salvador, Enrique Ghershi del Instituto Libertad y
Democracia del Perú, Jaime Carvajal de la Fundación Carvajal de
Colombia y Eckhart Oehring de FUNDES, Suiza. Las reuniones de
grupo y plenarias dirigidas por especialistas de agencias regionales e
internacionales de desarrollo, cubrieron financiamiento, mecanismos
de crédito, el papel del sector privado y modelos de desarrollo.

En octubre de 1987, se celebró en la ciudad de Guatemala,
INNOVACION 87, un foro sobre intercambio de recursos que fue
organizado por ASINDES (Asociación de Entidades de Desarrollo y
de Servicios No Gubernamentales de Guatemala) con la colabora-
ción de la FUPAD y de PACT (Agencias Privadas de Colabora-
ción Conjunta). INNOVACION 87 agrupó a más de 80 repre-
sentrantes de organizaciones no gubernamentales locales de Guatemala
y de agencias internacionales de desarrollo con el fin de intercambiar
información e ideas acerca de programas y recursos. Las discusiones
de grupo y los talleres versaron sobre formulación y evaluación de
proyectos, planificación, recaudación de fondos y asistencia técnica y
financiera.

Proyecto de Reforestación en Haití

El proyecto de reforestación de la FUPAD, financiado por la Agen-
cia para el Desarrollo Internacional, con apoyo adicional de la
Embajada de Canadá y donantes del sector privado de la Suiza y los
Estados Unidos, fue extendido en 1987 por tres años más y recibió
nuevo apoyo belga de la Asociación para la Cooperación Cultural,
Técnica y Educativa (ACETEC).

El proyecto ha excedido ampliamente sus metas originales. La
FUPAD ha diseminado el alcance de programa de reforestación a
través de una red de 200 organizaciones privadas voluntarias, de
grupos misioneros locales y de dirigentes de las comunidades. Desde
1981, 80.000 pequeños agricultores han plantado más de 20
millones de árboles y se han establecido 40 viveros regionales.

Las actividades de la FUPAD se han continuado desarrollando sin

12'

covered project formulation and evaluation, planning, fundraising and technical and financial assistance.

Haiti Agroforestry

PADF's Agroforestry Project, funded by the Agency for International Development (AID) with additional support from the Canadian Embassy, as well as Swiss and U.S. private sector donors, was extended in 1987 for three additional years by AID and received new Belgian support from the Association for Cultural, Technical and Educational Cooperation (ACTEC).

The project has greatly exceeded its original goals. PADF has delivered its agroforestry outreach through a network of 200 private voluntary organizations, local missionary groups and community leaders. Since 1981, over 20 million trees have been planted by 80,000 small farmers and 40 regional tree nurseries have been created.

Despite on-going political events in Haiti during the year, PADF's activities have continued with little difficulty. The success of the program lies in its grassroots approach whereby farmers are direct beneficiaries of their own tree-planting efforts. The agroforestry program has enjoyed uninterrupted AID support as a result of its apolitical, humanitarian orientation.

Training in Dominican Republic

PADF, under contract with AID in the Dominican Republic, is working with the Subsecretary of State for Natural Resources (SURENA) to improve personnel and budget management, planning and evaluation of resource development and conservation practices. Training and technical assistance is also being provided to two local Watershed Development Committees (WDCs). In addition to developing work plans and training priorities for SURENA and the WDCs, PADF is assisting them in project development and proposal writing to solicit future support.

Cocoa Production

For several years PADF has worked in the Caribbean and Central America to revitalize and expand cocoa as a new cash crop in the region. Cocoa, originally a major crop of the Mayan Indians, has suffered from disease, pests, and market stagnation.

The Hershey Foods Corporation (HFC) has been a major collaborator in PADF's cocoa development projects in Belize, Honduras and four Eastern Caribbean countries. Through its corporate headquarters in Hershey, Pennsylvania, and its 1,800

en Haití durante el último año. El enfoque fundamental del proyecto, que asegura a los agricultores un beneficio directo de la siembra de árboles, es el secreto del éxito del programa. En virtud de la orientación apolítica y humanitaria del proyecto agroforestal, la AID le ha brindado su apoyo ininterrumpido.

Capacitación en la República Dominicana

La FUPAD, bajo contrato de la AID en la República Dominicana, está colaborando con la Subsecretaría de Estado de Recursos Naturales (SURENA) para mejorar la administración de personal y presupuesto, la planificación y evaluación de la expansión de recursos y prácticas de conservación. Se ofrecerá, también, capacitación y asistencia técnica a dos Comités locales de Desarrollo de Vertientes. La FUPAD, además de delinear programas de trabajo y de determinar prioridades de capacitación para SURENA y los Comités, colaborará con ellos en el desarrollo de proyectos y presentación de propuestas para solicitar ayuda posterior.

Producción de Cacao

La FUPAD ha trabajado por muchos años con la Hershey Foods Corporation para revitalizar y expandir la producción de cacao como un nuevo cultivo comercial en la región de América Central y el Caribe. El cacao, uno de los principales cultivos de los Mayas, se ha visto azotado en años recientes por enfermedades, plagas y un estancamiento de su mercado.

La Hershey Foods Corporation (HFC) ha sido una de las mayores colaboradoras de la FUPAD en proyectos para el desarrollo del cultivo de cacao en Belice, Honduras, y el Caribe Oriental. La HFC continúa ofreciendo apoyo a las actividades de la FUPAD mediante tareas de investigación de la producción, procesamiento y comercialización del cacao, que realice desde su sede central en Hershey, Pennsylvania y desde su granja de demostración e investigación (Hummingbird Hershey) en 1,800 acres en Belice.



In Haiti boxes of tree seedlings are distributed to farmers.
En Haití se distribuyen cajas de arvejas de árboles a agricultores.

acre Hummingbird Hershey cocoa research and demonstration farm in Belize, HFC continues to provide research on cocoa production, processing and marketing to support PADF's cocoa activities.

The Honduras Cocoa Production and Marketing Project, completed in 1987 by PADF and VITA (Volunteers in Technical Assistance), expanded and improved cocoa production and initiated direct export by low-income farmers. Funded by AID through FEPROEXAH (Federation of Agricultural Exporting Producers of Honduras), this project helped cocoa producers to establish APROCACAO (Honduran Cocoa Producers Association), a farmer' organization offering production, extension and marketing assistance.

Working with Peace Corps and VITA near Hummingbird Hershey in Belize, PADF has helped develop cocoa production farms as an alternative to traditional slash-and-burn techniques that destroy vegetation. During the final six months of the project, PADF will continue organizational and technical training for farmer groups, and organize the first National Cocoa Forum in June, 1988.

As part of the AID umbrella project, HIAMP (High Impact Agricultural Marketing Project), PADF is assisting small farmers in Grenada, St. Lucia and Dominica to increase annual export revenues from sales of cocoa. By the end of the project, farmer exports are expected to improve by 20 percent.

PADF cocoa advisors help local producers manage demonstration plots, and set up extension and training modules to introduce hybrid varieties, pest and disease control, and effective tree maintenance for marketability.

Integrated Management, Production and Marketing Project St. Vincent and the Grenadines

PADF has been working since 1985 to strengthen the management, agricultural extension and marketing capabilities of the Organization for Rural Development (ORD), a non-profit farmer' organization engaged in agricultural development on the island of St. Vincent.

In addition to introducing cocoa as a viable income-producing crop, the PADF team has helped ORD diversify its crop development program to include cash crops such as ginger, tumeric, onions, hot peppers, pumpkins, peanuts and carrots. As a result of PADF's assistance to ORD, farmers are receiving credit, seeds, fertilizer, herbicides and guaranteed prices for their crops.

En 1987 concluyó el Proyecto para la Producción y Comercialización de Cacao en Honduras llevado a cabo por la FUPAD y VITA (Voluntarios para la Asistencia Técnica) gracias al cual se expandieron y mejoraron los niveles de producción y se inició la exportación directa del producto por parte de los agricultores de bajos ingresos. Este proyecto, financiado por la AID a través de FEPROEXAH (Federación de Asociaciones de Productores y Exportadores Agropecuarios de Honduras) colaboró con los productores en el establecimiento de APROCACAO (Asociación de Productores de Cacao de Honduras), una organización de agricultores que brinda asistencia en la producción, extensión y comercialización del producto.

La FUPAD, con el Cuerpo de Paz y VITA, ha ayudado a establecer plantaciones para el cultivo de cacao cerca de Hummingbird Hershey, que constituyen una alternativa al método tradicional de roza y quema que destruye la vegetación. Durante los últimos 6 meses del proyecto, la FUPAD continuará ofreciendo capacitación técnica y de organización a grupos de agricultores y auspiciará, en 1988, el Primer Foro Nacional de Cacao.

La FUPAD está ayudando a los pequeños agricultores de Granada, Santa Lucía y Dominica a incrementar sus ingresos anuales por concepto de exportaciones de cacao, bajo el amparo del Proyecto HIAMP de la AID (Proyecto de Gran Impacto para la Producción y Agrícola). Se anticipa que las exportaciones habrán aumentado en un 20 por ciento a la conclusión del proyecto.

Los asesores de la FUPAD en materia de cacao ayudan a los productores a manejar parcelas de demostración y a establecer módulos de extensión y adiestramiento para introducir variedades híbridas, control de plagas y enfermedades y mantenimiento apropiado de los árboles para posibilitar su comercialización.

Proyecto integrado de administración, producción y comercialización en San Vicente y las Granadinas

Desde 1985, la FUPAD ha procurado fortalecer la administración, extensión agrícola y capacidad de comercialización de la Organización de Desarrollo Rural (ODR), una institución sin fines de lucro, dedicada al desarrollo agrícola de la Isla San Vicente.

El equipo de la FUPAD, además de presentar al cacao como una cosecha viable para generar ingresos, ha ayudado a la ODR a diversificar su programa de cultivos incluyendo la cosecha de jengibre, cúrcuma, cebollas, pimientos picantes, calabazas, mani y zanahorias. Como resultado de la ayuda brindada por la FUPAD a la ODR, los agricultores reciben facilidades de crédito, semillas, fertilizantes, herbicidas y gozan de precios garantizados para sus cosechas.

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IV. THE PARTICIPATING NDFs

A. Overview

4.01 The National Development Foundations of Jamaica and Belize, (NDF/J & NDF/B), and the Fundacion Nacional para el Desarrollo de Honduras, (FUNADEH), are three of the most successful NDFs that PADF has helped establish in the 1980s. All three received A.I.D. funding via PADF. All three issue annual reports with audited financial statements, the most recent of which are attached. All three have, furthermore, been the subject of formal, independent evaluations, the executive summaries of which are also attached. While all share a certain PADF methodology, their legal charters, approved by-laws, and loan policies vary to one degree or another. Nonetheless, all three target their primary activities toward small and micro enterprises and carry an average loan size between \$1,575 and \$3,420. Seven Eastern Caribbean NDFs established with PADF assistance in Antigua-Barbuda, Barbados, Dominica, Grenada, St. Kitts-Nevis, St. Lucia and St. Vincent and the Grenadines, also during the 1980s, share many of the above characteristics but, for reasons outlined in Section 5.06 below, are being treated more as an association of NDFs than as a single institutional entity.

4.02 Lending Policy

4.03 NDF/J The National Development Foundation of Jamaica was established in November 1981 to provide institutional support to the small business sector in Jamaica. Since its inception, the Foundation's programs of offering non-traditional credit, technical assistance, and training have enjoyed rapid growth. At the close of 1987, NDF/J had made a total of 1,576 loans worth J\$15.4 million (US\$ 3.8 million) and the Foundation's

loan portfolio stood at US\$ 1.7 million and was comprised of 850 loans. The average loan size was about US\$ 1,575. Forty-six percent of the Foundation's loans go to manufacturing, forty percent to trade and commerce, and fourteen percent to agriculture.

NDF/J follows rather typical NDF loan procedures (see Annexes) with an especially strong emphasis on training and technical assistance. The loan application process includes several stages of client screening and analysis. The maximum loan for micro-enterprises is US\$ 9,000 for an

individual and US\$ 18,200 for a partnership or firm. NDF/J underwent a senior management change in 1987. PADF believes that under the new leadership of Executive Director Dr. Blossom Stokes the Foundation will continue its rapid growth. It was the under the Foundation's new leadership that the attached strategic plan document was written.

4.04 NDF/B

The National Development Foundation of Belize became a legal entity in January 1983 and began loan operations in April 1984. NDF/B's mission is to strengthen the development of entrepreneurial skills and practices in Belize through the provision of credit, business guidance, and technical assistance to small-scale entrepreneurs. From 1984 through FY 1986, NDF/B made 316 loans for over BZ\$1 million (US\$500,000) to 325 clients. At the close of FY 1986, the Foundation's outstanding loan portfolio stood at BZ\$700,000 (US\$350,000). The average loan size was approximately US\$1,580, roughly equivalent to that of Jamaica. Most loans have gone to support small and micro enterprises in services, agribusiness, and manufacturing.

As with other NDFs, NDF/B screens loan applicants in several stages and provides technical assistance and training to borrowers. Applicants must be turned down by a commercial bank before they are eligible to receive an NDF/B loan. Projects must be income-generating. NDF/B calls its 1983-1986 period the "pilot project" phase of the Foundation while 1986-1990 represents the "consolidation and expansion" phase of its first strategic plan. In this second phase, capitalization for the the revolving loan fund remains an important issue for NDF/B.

4.05 FUNADEH

The Fundacion Nacional para el Desarrollo de Honduras has enjoyed the most rapid growth of any PADF affiliated organization. Its rapid success won it PADF's Inter-American Development Award in April 1988. Located in Northern Honduras in the industrial city of San Pedro Sula, FUNADEH is led by a professional management team which has forged strong relations with the private sector. Beginning loan operations in 1985, FUNADEH had made 539 loans for Lp\$3,688,250 (US\$1,844,125) through 1987. The average loan size was about US\$3,420 or about twice the average of the Jamaica and Belize NDFs. FUNADEH's staff has projected some 500 new loans rotating approximately US\$2,000,000 in 1988 alone.

As with other NDFs, FUNADEH maintained a technical assistance and business counseling program, screened loan applicants in several stages, and regularly monitored borrowers throughout the life of the loan. FUNADEH's rapid growth, like that of NDF/J and NDF/B, has caused the need for an expansion of its revolving loan fund to meet San Pedro Sula's strong demand for non-traditional credit.

4.06 Eastern Caribbean NDFs

In the 1980s, PADF helped establish seven NDFs in the English-Speaking islands of the Eastern Caribbean. These included foundations in Antigua-Barbuda, Barbados, Dominica, Grenada, St. Kitts-Nevis, St. Lucia, and St. Vincent and the Grenadines. All seven NDFs were created with comparable by-laws and loan policies and procedures. Much of the senior management of these NDFs also participated together in seminars on NDF management sponsored by PADF. Having followed the general model of the NDFs mentioned above, the Eastern Caribbean NDFs resemble other NDFs in day to day operations but vary considerably in terms of performance. Some of the most successful NDFs in the Eastern Caribbean include St. Kitts-Nevis, Barbados, and Dominica, which are the most likely recipients of first round funding under the guarantee fund.

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V. CURRENT PROBLEMS AND CREDIT NEEDS

5.01 The problems of access to credit in Latin America and the Caribbean are old and entrenched. The reluctance of commercial banks to deal with small scale borrowers is not a uniquely Latin American phenomenon, but it is certainly prominent in the region. Although attitudes and political will are slowly changing in respect to the small-scale private sector, Latin American economies in the 1980s have become net exporters of capital, thus further reducing the availability of credit. The processes of debt, structural adjustment, austerity, and devaluation, have exacerbated credit needs and the social tensions associated with the entrepreneurial poor's lack of access to that credit. Numerous NDFs, created in the 1980s with PADF assistance, have helped mitigate the credit crisis, partially meeting the credit needs of the entrepreneurial poor. More successful than many would have expected, NDFs are able to respond to a continued strong demand for credit despite the difficult macro economic atmosphere.

Although most new NDFs and their countries reflect trends, NDF/J epitomizes them most vividly. Following currency devaluations of over 300% in recent years, increasing debt, and austere structural adjustment policies, Jamaica has slowly grown out of its economic depression, but not without significant costs.

Demand management policies have restricted the country's money supply which caused interest rates to remain high, at about 25%. Credit became not only expensive but increasingly unavailable to poorer sectors. At the same time, official unemployment rates remained high, and government social programs have been curtailed drastically.

These factors have swelled Jamaica's already prominent informal sector. As the Jamaican proposal outlines, less than 2% of Jamaica's small businesses received funding from the Government's Small Business Loan Board and 40% of small entrepreneurs did not apply for a commercial bank loan because they either thought they would not receive one or did not know how to apply. Furthermore, fewer than one-third of all small businesses surveyed kept financial records, which was cited as a major reason why commercial banks did not issue loans to small-scale entrepreneur.

In this socio-economic context, the role of the NDF/J (and other NDFs) is crucial. The credit problems reviewed above are the fundamental reasons for the Jamaican proposal and the other letters of need for expanded capital for their revolving loan funds. All these institutions project a strong credit demand in the short to medium term, a demand which cannot be met without increased access to funds for their loan fund.

- 5.02 Credit Risk - The underlying risk is that an NDF borrower will not repay his loan as promised. Under the proposed structure, A.I.D./PRE would cover up to 90% of this risk. The balance of the risk would be carried by the NDF or the NDF and the local commercial bank. NDFs will be expected to cover the first 10 percent of the cost of any default which results in any claim that might be made against the stand by letter of credit.

VI. CONTRIBUTION TO DEVELOPMENT

A. IMPACT OF A.I.D./PRE PARTICIPATION ON USAID POLICIES AND PRIORITIES

6.01 Private sector development will be promoted by providing access to credit for thousands of small and micro enterprises who are the most dynamic sector of Latin American and Caribbean economies. Use of market rates on loans and the promotion of both rural and urban entrepreneur are consistent with the stated objectives of each of the host governments potentially involved in the proposed project. Small and micro businesses will also develop stronger linkages with the more formal private sector through association with the respective NDF board of directors which typically reflect a broad spectrum of a country's private leadership.

Institution building will be enhanced as NDFs draw on these second generation projects, utilize lessons learned from the A.I.D. grant funding and greater exposure to commercial banks. The proposed project will also reinforce PADF's long term relationship with NDFs and incorporates PADF's experience in NDF institution strengthening and leadership training and benefit from its continuing informed oversight.

Basic human needs will be met by job creation as a result of access to loans. The project will improve the livelihood of thousands, especially women (especially in Jamaica where women are a particularly high percentage of NDF/J borrowers). In a period of austerity and slow growth, reaching the entrepreneurial poor is astute economic policy as well as social policy.

Policy Dialogue with developing country governments is part of USAID's private promotion and small and micro development objectives. Such dialogue is enhanced by a guarantee fund to bring marginal producers into the formal commercial sector. Assuming success, the guarantee fund can serve as a model which could allow PADF and A.I.D. to expand the Revolving Loan Fund to other NDFs. It could also cause important attitudinal changes on the part of Central Banks and commercial banks in regard to lending to small and micro businesses and the role of guarantee fund mechanisms

B. Relationship to CDSS/Action Plans

This proposal clearly fits into A.I.D.'s overall goals in the respective countries as outlined in recent CDSS's and Action Plans.

The 1989-90 Jamaica CDSS corroborates the argument that there is much which the U.S. Government can and should do to help improve the quality of life of poor and middle class. In terms of policy, the CDSS emphasizes the need to "expand private sector involvement," "expand total credit to the private sector," "expand employment opportunities in the private sector," "broaden access to business opportunities," and "diversify the ownership base." NDF/J's work with small and micro enterprises certainly benefit all those goals. NDF/J's generous provision of credit to women all fits into the Mission's belief that "the role of women in development is a key part of the mission's strategy to improve opportunity." NDF/J's provision of technical assistance and training also complements the mission's goal to "develop human capital so that a greater portion of the population actively participates in and enjoys benefits of development." Finally, the CDSS specifically mentions the NDF/J. Citing that "growth is expected chiefly in the creation of new medium and small-scale enterprises," the Strategy Statement states that "support will be continued to selected institutions, principally the National Development Foundation."

Mission support for the aims of the NDF/B are as strong as that for Jamaica. The Belize Mission's 1989-90 Action Plan discusses the need for strengthening the private sector, expanding credit to the private sector, greater equity, and broader participation in development. NDF/B's recent success has obviously facilitated the attainment of all these goals. The Action Plan has two pages dedicated entirely to NDF/B which states: The strengthening of the Belizean private sector and increasing exports are the objectives of the mission's private sector program. The National Development Foundation of Belize (NDF/B), supported by a grant for institutional development, is providing a major source of credit and technical assistance to local micro-and small enterprises.

(Honduras Action Plan will be issued prior to completion of the I.P.

Eastern Caribbean NDFs

The goals of RDO/C's Action Plan for 1989-90 are similar to many of the region's missions. These goals include: sustained economic growth, strengthening of the private sector, sharing the benefits of growth, increased participant training, and furthering the aim of female participation in development, all goals achieved by Eastern Caribbean NDFs. Even more so than other missions, however, the activity of the Regional Caribbean Office has been slowed by severe budget cuts. Expanded access to funds through a guarantee mechanism would help to offset the drastic curtailment of funding for projects, such as the NDFs, and help attain the Mission's goals listed above. Since the Action Plan's section on private sector assistance favorably cites the NDFs by stating "the Mission's support of National Development Foundation in Eastern Caribbean countries has had excellent results;" an expanded role for the NDFs would appear to make sense from the Mission's perspective.

C. Relation to PRE Objectives and Policies

A.I.D./PRE's objective is to meet the mandates of the Foreign Assistance Act using self-sustaining private sector vehicles. In addition, A.I.D./PRE

utilizes a variety of operating policies for its Revolving Fund investments to ensure high level of development and secure financial returns. PADF and NDFs satisfy both. The proposed investment efficiently targets additional Bureau resources towards the smaller enterprise sector by virtue of the fact that it is building on the experience gained by previous programs and suggests potential means of replicating the methodology for other bureau and mission use.

This project will initially mobilize the local currency equivalent of US \$2,000,000 in credit. Depending on the arrangements negotiated with A.I.D. and the local commercial banks on NDF leveraging, the final amount of capital could be well over US\$ 2,000,000. This credit will provide a net addition to the investment resources already available to this sector.

The project also meets A.I.D./PRE guidelines for management of Revolving Fund investments. These are as follows:

- Has a Demonstration Effect by encouraging NDFs and similar PVOs to continue to downstream credit, and by mobilizing alternatives to public sector, subsidized credit.
- Exhibits Financial Viability based on a track record of effective demand, proven management, and appropriate targeting by NDFs under earlier A.I.D. grants administered by PADF.
- Targets Development Impacts Appropriate to the Region by responding to identified constraints on capital expansion by small and micro enterprises.
- Makes Resources Available to the Small and Micro Enterprise Sector by leveraging the A.I.D./PRE facility to create an additional pool of credit.
- Integrates Small Businesses into the Commercial Banking System by teaching financial record keeping and introducing the norms of the banks. The process can also help change the long-term outlook of local commercial banks toward small and micro enterprises.
- Strengthens Institution Building by providing support to NDFs who expand their activities and consolidate their role as a local development organization, one of the four "pillars" of all A.I.D. programs.

In addition, this facility satisfies PRE's project-specific eligibility parameters (a) by falling within the US\$3 million cap on any single project; (b) providing no more than 50 percent of the total capitalization of any given project since the ultimate sub borrower will be responsible for providing the balance of the cost of any project not financed by A.I.D. guaranteed credit, and (c) the facility will bear total service costs and interest rates that are at or exceed current market rates.

VII. MONITORING

- 7.01 Project monitoring will be the responsibility of the NDFs, local commercial banks, and PADF. It will consist of (a) annual reports on loan and financial performance, and (b) adherence to small and micro enterprise development covenants of the NDF by-laws and loan policies and procedures. Both (a) and (b) will be performed on a quarterly basis based on debt service schedules and reporting requirements of loans made by NDFs. Copies will be sent to both PADF and A.I.D./PRE. PADF will provide A.I.D./PRE annual analytical and financial overviews on the progress and performance of guarantee loan portfolios of each participating NDF.
- 7.02 NDFs will issue quarterly reports to A.I.D./PRE and PADF with data describing each borrower in terms of population size, production, and estimated increased sales, employment, etc. as a result of financing. A reporting form prepared by A.I.D./PRE is included in the annex (See attachment ___). This data is will largely represent the empirical basis on which the evaluation is performed. Augmenting periodic reports will be ongoing discussions by A.I.D./PRE/USAID staff with PADF and NDFs concerning implementation issues. When and if necessary, discussions would also be held with commercial banks.
- 7.03 Responsibility for project monitoring will reside primarily with the NDFs and PADF.

VIII. EVALUATION

- 8.01 PADF has in-house capability for the ongoing evaluation its own programs and field projects. It nevertheless also contracts outside evaluators to conduct independent, third-party analysis of its activities on a regular basis. Internal evaluation of the guarantee fund will be an annual process, generally scheduled in conjunction with PADF's annual report to A.I.D./PRE. The external evaluation plan for this project will utilize a portion of the A.I.D./PRE grant for a paid consultant to evaluate the guarantee fund after a within an eighteen month period after initiation of guarantee activities or utilization of the first \$1 million of guarantee funding, whichever ever occurs earlier.
- 8.02 The quarterly reporting requirements by the NDF/local commercial bank to A.I.D./PRE and PADF will provide baseline data for the evaluation in the following areas: (1) employment generation, (2) management and technical skills development (3) increased income and economic activity as a result of this project. The evaluation will also analyze PADF's technical assistance to the NDFs and the effectiveness of this model for other NDFs.

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IX PROPOSED TIMETABLE

Proposal/Project Paper	June 1988
I.O.P. Review	July 1988
Loan Review Board	July 1988
I.P. Approved	August 1988
Initialed Loan Agreement	August 1988
Execution of Loan Agreement	September 1988
First Disbursement	September 1988

Attachments

A. Jamaica

1. Guarantee fund proposal with cover letter
2. Annual reports
3. Evaluation (executive summary)

B. Belize

1. Preliminary request for guarantee fund
2. Annual reports
3. Evaluation (executive summary)

C. FUNADEH

1. Preliminary request for guarantee fund
2. Annual reports
3. Evaluation (executive summary)

D. Eastern Caribbean NDFs

1. Cluster study evaluation of Eastern Caribbean
2. Annual reports

E. PADF

1. Capabilities statement
2. 1987 annual report and financial statements
3. Comparative analysis of NDF/J, FUNADEH, and ADEMI
4. Summary of PADF's micro enterprise forums

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