



**TRAFALGAR DEVELOPMENT BANK
PROJECTS INVESTMENT DEPARTMENT**

**PROJECT ASSISTANCE COMPLETION
REPORT**

U.S.A.I.D. PROJECT NO. 532-0091

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INTRODUCTION

Trafalgar Development Bank, then Trafalgar Finance Company, entered into an agreement (Project NO. 532-0091) with the United States Agency For International Development (USAID) to establish a Private Sector Development Bank with the overall goal of promoting and developing new and expanding privately owned, sustainable economic ventures.

All funds earmarked under this program were fully committed by the original Project Assistance Completion Date (PACD) of August, 1990. Due to disbursement problems prior to the original PACD for the US\$ counterpart of these funds, TDB sought and received approval, on December 21, 1990, from the USAID to disburse local currency funds and receive reimbursement in J\$ (copy of letter dated July 17, 1991 attached). These funds were fully disbursed in March 1992.

This report represents the Project Assistance Completion Report (PACR) required as per agreement with the USAID to officially close out the project.

PROJECT PURPOSE, OBJECTIVES AND DESCRIPTION

OVERALL GOAL

The overall goal of the Trafalgar Development Bank Limited (TDB) is to promote, develop and finance both new and expanding privately owned, sustainable economic ventures in order to improve the economic and social well being of the people of Jamaica whilst providing a market rate of return to its equity shareholders.

OBJECTIVES

Institutional

- To develop and maintain a strong net worth borrowing base of sufficient size to access loan funding from USAID and other potential international lenders;
- To develop alternative and complementary domestic and international funding sources;
- To establish an institution with well respected and talented private sector Board of Directors with a demonstrated commitment to development;
- To establish a professional development finance staff that will bring effective management, creativity and dedication to the institution; and
- To develop and manage a system of financial control and monitoring to ensure that all resources effectively achieve the goals of the institution.

Investment

- To provide medium and long term credit in both local and foreign currency, and to underwrite, syndicate and make equity investments in the private sector, productive business activities of Jamaican enterprises;
- To develop a promotional capability in order to maximize opportunities for investment;
- To develop significant non-asset based sources of fee income; and
- To generate a market rate of return to the stockholders of TDB.

Developmental

- To act as a catalyst in accelerating the economic growth of the Jamaican economy through initial and on-going assistance to clients in loan packaging, project development, project management, and the leveraging of long term international and domestic resources toward these ends;
- To ensure that all investments are for activities that will not be damaging to the Jamaican environment; and
- To collect, analyze and evaluate information regarding the economic impact of project investments whilst preserving the financial propriety of its clients.

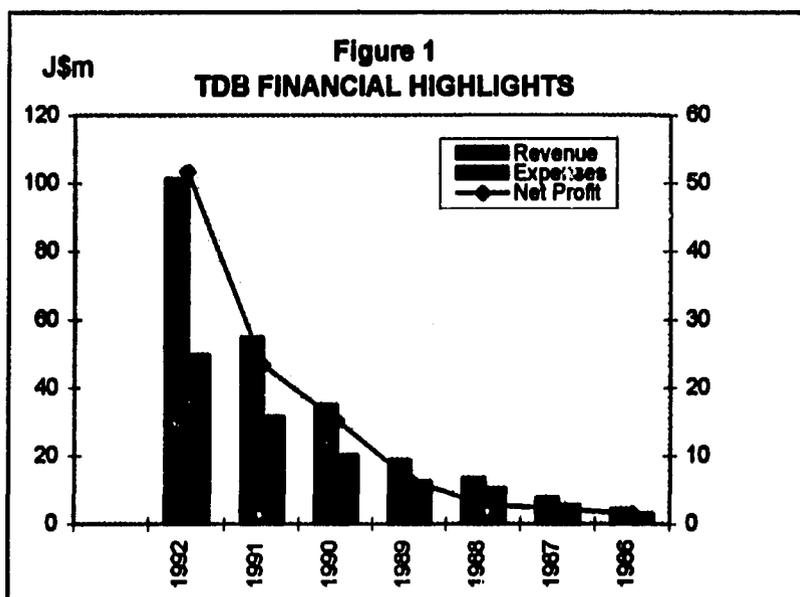
SUMMARY OF CONTRIBUTIONS

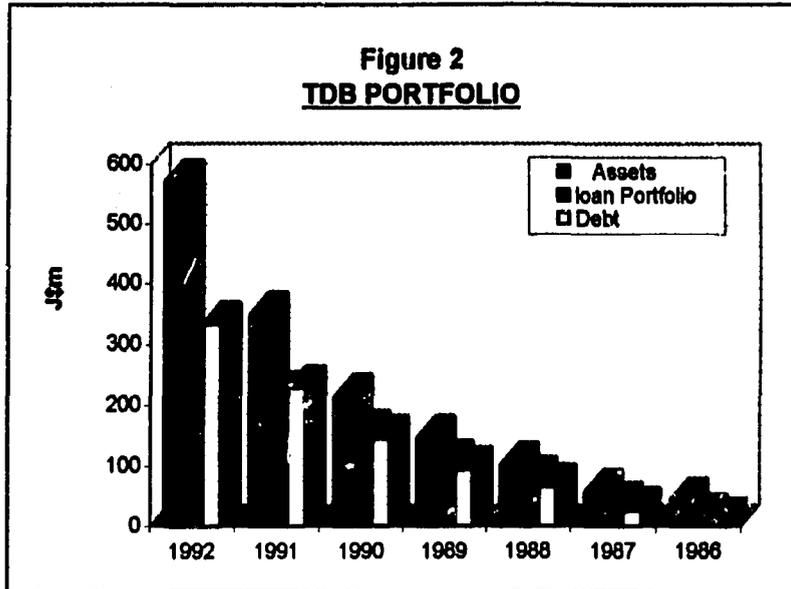
One of the key institutional objective of the bank, as outlined earlier is "to develop and maintain a strong net worth borrowing base of sufficient size to access loan funding from USAID and other potential international lenders".

TDB has achieved remarkable success in this area of its operation. Table 1 below shows TDB's financial highlights as of September 30, 1990 and 1992.

**TABLE 1
TDB's: FINANCIAL HIGHLIGHTS**

	1992	1991	1990	1989	1988	1987	1986
Assets	571,643	349,432	214,939	146,415	101,830	57,497	42,753
Lease Receivable	33,167	18,161	14,914	8,258	2,476		
Loan Portfolio (Less provision for loss)	282,868	219,068	155,694	106,010	78,891	36,405	16,456
Share Capital	23,968	23,968	23,968	23,968	23,968	23,968	22,924
Due to Long-term lenders	334,148	229,150	146,492	95,244	66,379	27,572	9,696
Revenue	101,263	54,819	35,377	18,946	13,494	7,716	4,353
Expenses	49,530	31,481	20,141	12,519	10,497	5,459	2,882
Net Profit	51,733	23,338	15,236	6,427	2,997	2,257	1,471
Earnings per Share(c)	216	97.4	63.6	26.8	12.5	9.4	6.4
Number of Employees			27	25	27	20	17





PROJECT ACCOMPLISHMENTS

Mobilization of Funds

TDB has successfully mobilized a total of US\$20.9 million and J\$51.4 million long term funds by the initial project completion date, August 1990. However by the actual date of final disbursement, August 1992, this had increased to US\$30.1 million and J\$64.6 million. Table 2 below shows the level of long term funds mobilized from various funding sources.

TABLE 2

FUNDING SOURCE	TRAFALGAR DEVELOPMENT		BANK LTD.	
	MOBILIZATION OF LONG TERM		FUNDS	
	1990		1992	
	US\$m	J\$m	US\$m	J\$m
TDB'S S.H. EQUITY		23.9		23.9
USAID	13.5	27.5	13.5	27.5
FMO	3.5		3.5	
DEG	3.9		3.9	
EIB			1.4	
CDC			7.8	
ACB				7.5
NDB				5.7
TOTAL	20.9	51.4	30.1	64.6

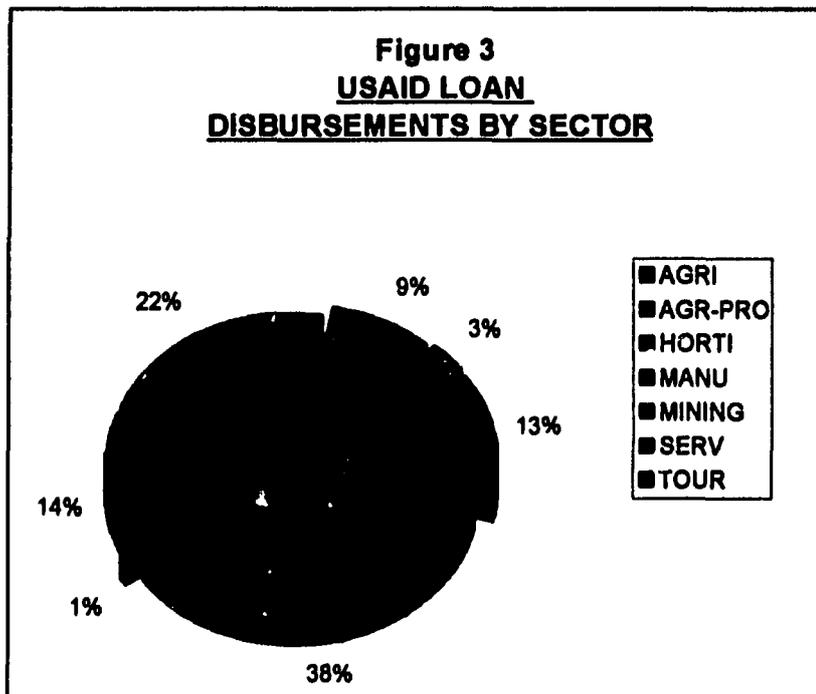
Portfolio

The funds provided under the USAID program were used to provide financing to 65 projects in the various sectors as shown in Table 3 and Figure 3.

TABLE 3
USAID LOAN
NUMBER AND VALUE OF PROJECTS FINANCED
(J\$'000)

SECTOR	No.	Value
AGRI	5	13,173
AGR-PRO	4	4,994
HORTI	8	18,748
MANU	25	53,764
MINING	1	1,212
SERV	9	20,808
TOUR	13	31,739
TOTAL*	65	144,438

* includes counterpart funds provided from TDB own funds and funds provided by the FMO & DEG.

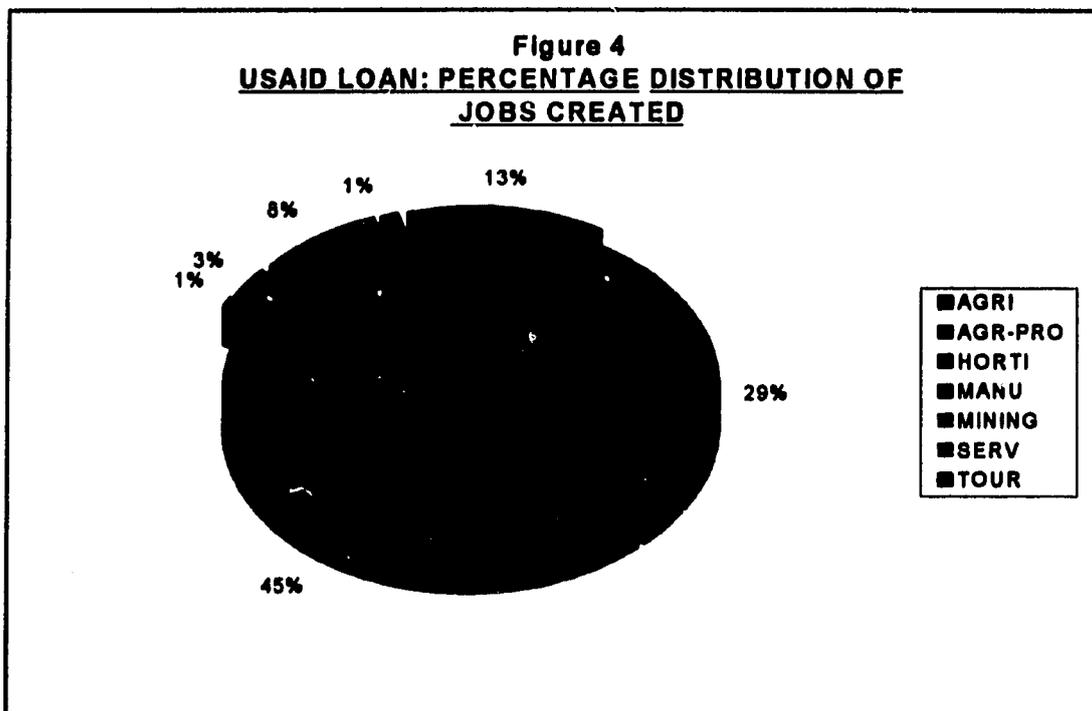


Economic Benefits

The 65 projects financed through this loan program has generated significant economic benefits to the country. These include:

- The direct creation of some 2,892 jobs.
- The generation of an average annual turnover level of J\$31.5 million.
- The transfer of technology.
- The earning of an estimated US\$336.5 million and significant savings of a further US\$95.2million
- The diversification of the productive base of the economy and the penetration of firms into international markets.

These economic benefits are presented in the following tables and figures.



Total number of jobs directly created = 2,892

TABLE 4
ANNUAL AVERAGE TURNOVER BY SECTOR
(J\$000's)

Year	AGRI		AGR-PRO		HORTI.		MANU		MINING		SERV.		TOUR.		WEIGHTED	
	No.	Av.	No.	Av.	No.	Av.	No.	Av.	No.	Av.	No.	Av.	No.	Av.	No.	Av.
	Turnover		Turnover		Turnover		Turnover		Turnover		Turnover		Turnover		Turnover	
1988	5	16,572	3	108	6	57,011	14	46,071	-	-	3	52,697	2	16,819	33	31,546
1989	5	20,741	3	223	5	61,583	13	25,902	1	96	1	3,052	7	67,869	35	25,638
1990	3	12,411	1	273	3	410,210	6	27,916	1	697	1	1,944	9	62,638	24	73,727
1991	2	58,299	1	614	0	-	3	28,450	1	594	2	3,144	9	38,893	18	21,666
1992	1	4,048	0	-	0	-	0	-	-	-	1	4,666	5	31,834	7	13,513
1993	0	0	0	-	0	-	0	-	-	-	1	5,132	4	40,267	5	22,699
Ann. Avg.		22,414		305		176,268		32,085		462		11,773		43,053		31,465

TABLE 5
ESTIMATED NET FOREIGN
EXCHANGE EARNED AND/SAVED
BY SECTOR
(US\$m)

	Agri	Agr-Proc.	Horti	Manu	Mining	Serv	Tour	Total
Net expected Fx earned	12	1.5	35.1	154.6	2	1.4	129.9	336.5
Net expected Fx saved	2.6	0	0	86.2	0	1.2	5.2	95.2

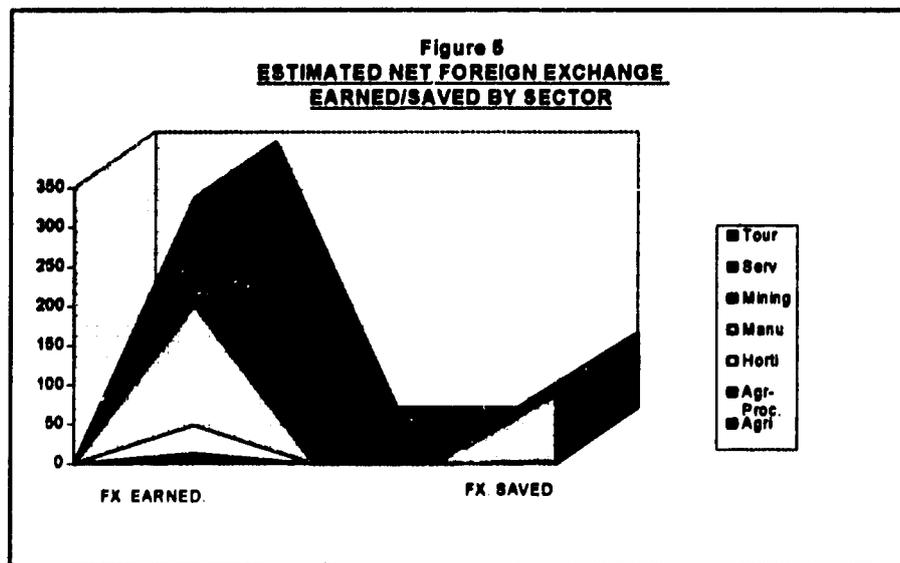


TABLE 6

USAID LOAN PROJECTS FINANCED BY MARKET AND BY SECTOR					
SECTOR	DOMESTIC	FOREIGN TRAD	FOREIGN NON.TRAD	IMPORT SUBS.	TOTAL*
AGRI	4	2	1	0	7
AGR-PRO	0	2	2	0	4
HORTI	3	1	5	1	10
MANU	13	9	9	9	40
MINING	0	0	1	1	2
SERV	6	6	0	2	14
TOUR	0	13	0	0	13
TOTAL*	26	33	18	13	90

* Total differs from total number of projects financed because some projects produce goods for more than one market.

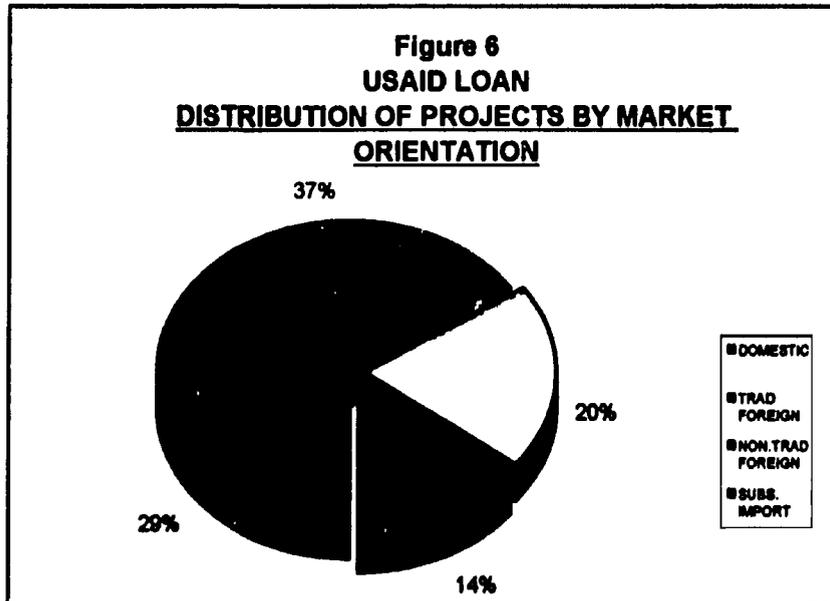


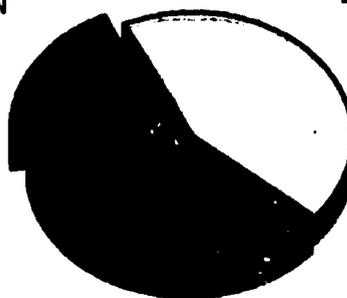
TABLE 7

SECTOR	USAID LOAN NATURE OF TECHNOLOGY TRANSFER			TOTAL
	NEW	MODERN	EXP.	
AGRI	1	0	4	5
AGR-PRO	4	0	0	4
HORTI	4	1	3	8
MANU	6	7	12	25
MINING	1	0	0	1
SERV	1	3	5	9
TOUR	7	2	4	13
TOTAL	24	13	28	65

Figure 7
USAID LOAN
TECHNOLOGY TRANSFER TO PROJECTS

MODERNIZATION
20%

EXPANSION
43%



NEW
37%

EVALUATION AND STUDIES

A number of evaluative studies have been carried out by other International Financial Institutions, such as the European Investment Bank (EIB) Commonwealth Development Corporation (CDC) and the Caribbean Development Bank (CDB) prior to their approving loans to TDB. All our requests for loans from such institutions have been successful. No other major study or evaluation has been undertaken in the last five years. We have however, recently concluded our own evaluation of our performance to date as a venture capital institution (see copy attached).

CONTINUING RESPONSIBILITIES

TDB is committed to the concept of development financing and as such remains integrally involved with projects financed by its funds. In this respect TDB has a continuing responsibility to its clients which is emphasized by the:

- Monitoring of active projects;
- Use of Reflows to finance the productive sector; and,
- Sourcing of additional funds to complement our own resources.

SUMMARY OF LESSONS LEARNED

A number of critical lessons have been learnt as a result of the implementation of the USAID project No. 532-0091. These include the importance and need for:

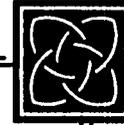
- The development of an appropriate Portfolio Mix;
- Astute Risk Management;
- Adequacy of Security;
- Proper Monitoring;
- Flexibility in financing - Refinancing;
- Collaboration with other Financial Institutions, both Local and Overseas; and,
- Responding quickly and appropriately to Economic Changes - Local and International

CONCLUSION

In summary, given,

- I) TDB's contribution to the mobilization of capital, the financing of businesses and the resultant contribution to economic development in terms of significant employment generated, value added created, foreign exchange saved and earned and, the transfer of technology;
- II) Its pioneering role in long term foreign exchange loans, its contribution to export promotion and hence assistance in the penetration of firms into international markets and the resultant diversification of the productive base of the economy;
- III) The promotion and development of the high risk sectors (Agriculture, Information Processing) and the non-traditional sector, including Agri-Processing and mining (non-metallic minerals).
- IV) Its demonstrated ability to effectively channel funds that might be available for development purposes under an appropriate interest rate policy.

It can be concluded that TDB has achieved the goals and objectives set for the USAID Private Sector Development Bank Project No. 532-0091 and is now even better equipped to promote and finance the productive sector and so contribute to the further growth and development of the society.



AN EVALUATION OF

TRAFALGAR DEVELOPMENT BANK

AS A

VENTURE CAPITAL INSTITUTION



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EXECUTIVE SUMMARY

TDB was incorporated as a private sector development bank with venture capital status and enjoys a tax holiday which is due for review in 1994.

The rapidly changing economic environment has necessitated a restructuring of TDB's operations in order that it may offer a wider range of financial services. Critical to this process is the continuation of TDB's Venture Capital Status for a further period.

TDB is committed to the twin role of promoting and financing growth and development. An analysis of the performance of TDB to date reveals that it has fulfilled its mandate as a Venture Capital institution. In the process it has contributed to the economic development of the nation by mobilizing and providing much needed Capital and Technical Assistance to the productive sector.

FINANCIAL ROLE

Mobilization of Finance

- **TDB commenced operations with a Share Capital of J\$23.9M which has now increased to J\$110.0M;**
- **TDB has mobilized the equivalent of J\$544.0M long term loan funds (7 -15 years), J\$533.0M or 98% of which came from international lending agencies including USAID, DEG, FMO, EIB, CDC, CDB;**
- **A further US\$13.5M or J\$452.0M has already been committed from these institutions;**
- **Another US\$3.5 million of loan funds from EIB is available for equity financing which TDB must match on a 1:1 basis making available another J\$235.0M for equity financing.**

Benefits from the Venture Capital Status have been passed on to the productive sector by TDB through its:

- 1. below market interest rate;**
- 2. technical assistance programme; and**
- 3. conservative dividend policy.**

Provision Of Finance

- As at May 1994, TDB, through its long term loan proceeds, loan reflows and retained earnings, has committed the equivalent of J\$909.0M in loans and leases to 146 companies. J\$707.2M or 78% has been disbursed;**
- A further J\$25.6M has been disbursed as equity funds;**
- As a Wholesaler, TDB, under the GOJ/GON programme has committed, through Approved Lending Agencies (ALA) a total of J\$61.5M to the micro-enterprise sector. J\$46.5M or 75% has been disbursed as loans including J\$4.6M as technical assistance.**

Contribution To Economic Development

Promoting and Financing projects that earn/save foreign exchange, generate employment and value added in Critical Growth areas including:

- Manufacturing**
- Tourism/Eco-tourism**
- Agriculture/Agro-Processing**
- Information Technology**
- Film/Music**
- Non-Metallic Minerals**

Offered special support in the form of financing and technical assistance to:

- ◇ Agriculture and other high risk areas such as Information processing and Horticulture;**
- ◇ Created more than 5,000 new jobs, along with significant amount of indirect employment;**
- ◇ Financed projects which will generate in excess of US\$750.0M and save a further US\$228.0M.**

Venture Capital Financing

Despite the initial constraints to the development of Venture Capital in Jamaica, TDB has pioneered development in this area. This was accomplished through direct equity financing and collaborative promotion with other organizations eg. JVF, NDF/J, SRC, Ministry of Foreign Affairs and Foreign Trade and Ministry of Public Utilities, Transport and Energy.

Direct equity totalling J\$26.5M (J\$13.5M and US\$1.2M) has been disbursed to projects in manufacturing, tourism, agriculture and services, including the music and entertainment sector.

A further sum of J\$235.0M is now available for equity financing to the productive sector.

PROMOTIONAL ROLE

TDB's promotional role as a development institution is circumscribed by the provision of Technical Assistance funds for:

- ◆ Feasibility studies;
- ◆ Environmental Impact Assessments;
- ◆ Graduate and Undergraduate scholarships for studies at UWI in Agricultural Science and other vocational training; and
- ◆ Educational Development at the Secondary level.

FUTURE PROSPECTS

The increasing economic environment requires financial institutions to gear themselves to be more productive, innovative and flexible in order to support the productive sector.

In order to continue to play a critical role in supporting economic development, TDB has embarked on new initiatives in the following areas:

1. Take a more pro-active position in equity financing and the development of the secondary securities market;
2. Mobilization of additional financing for long term loans in both local and foreign currency;
3. Expand our role in financing the development and growth of the micro-enterprise sector;
4. Restructuring its operations in order to improve its efficiency and to provide a wider variety of financial services and products designed to meet the specific needs of the productive sector;
5. Geographical expansion of operations through additional offices in strategic locations;
6. Continue a conservative dividend policy in order to increase our Jamaican Dollar lending activities.

INTRODUCTION

In 1983 Trafalgar Development Bank was incorporated as a private sector development bank with venture capital status and enjoys a tax holiday which is due for review in 1994.

In response to the changing economic conditions TDB is restructuring its operations to offer a wider range and variety of financial services. Towards this end TDB is currently developing a long-term strategic plan which will guide its future operations in a more aggressive and dynamic way. A critical aspect of this process is the continuation of TDB's venture capital status for a further period.

The purpose of this presentation therefore is to highlight TDB's contribution to economic development as a venture capital institution, and to provide some insight as to what we expect to contribute to the nation during the next decade.

PERFORMANCE OF TDB

Development Banking in small developing countries like Jamaica connotes a multifaceted institution that provides a catalytic role in the development process. The main role of institutions, such as TDB, in this process is financial and promotional.

As Jamaica's first private sector development bank with venture capital status, TDB's Corporate Philosophy reflects the foregoing. (see appendix 1).

The history of development banking in the region, as typified by public sector development banks, is characterized by wide-spread failure and inefficiencies in their operations. Similarly, the history of venture capital financing world wide is replete with failure. Therefore, any analysis of the performance of TDB must of necessity take cognizance of these facts.

Indeed as Jamaica's first private sector development bank TDB has through policy and prudent management enjoyed a fair amount of success in achieving its major objective of promoting and financing development.

1. FINANCIAL ROLE

TDB began lending operations in 1985 with a share capital of J\$23.9 Million and substantial assistance from the United States Agency for International Development (USAID) . As at 1993 financial year end, its share capital stood at J\$58 Million (58 million shares at \$1.00 par value) and a further J\$52 Million in capital reserves. TDB has a broad based share holding of some 1,200 shareholders of which the Deutsche Investitions- Und Entwicklungsgessschaft mbH (DEG) and the Financierings Maatschappij voor Ontwikkelingslanden N.V. (FMO) hold 10% and 8% respectively.

A: MOBILIZATION OF FINANCE CAPITAL

In addition to its equity contribution of J\$110 Million, TDB has mobilized the equivalent of a total of J\$544 Million long-term loan funds (net of repayments). Of this amount, J\$533 Million or 98% was sourced in foreign currency directly from international lending agencies and J\$11 Million from the domestic financial market. These international agencies include:

- The United States Agency for International Development (USAID);
- the Deutsche Investitions- Und Entwicklungsgessschaft mbH (DEG);
- the Financierings Maatschappij voor Ontwikkelingslanden N.V. (FMO);
- the European Investment Bank (EIB); and,
- the Commonwealth Development Corporation (CDC).

A further sum of US\$13.5 Million or some J\$452 Million has already been committed from the Commonwealth Development Corporation (US\$5M), the European Investment Bank (US\$6M of which J\$2.5M has already been drawn down) and the Caribbean Development Bank (US\$5M), with an option to negotiate a further US\$5M.

Along with the EIB loan of US\$6 Million, a separate sum of US\$3.5 Million has been negotiated and is now available for equity investments. Under the terms of this agreement TDB must match these funds from its own resources on a 1:1 basis. This means that a total of US\$7 Million or J\$235 Million is currently available for additional equity financing to the productive sector.

To date TDB has therefore successfully accessed funds of almost 21 times its paid up capital of J\$58 Million. It should be noted that these funds were accessed as unsecured long term loans from international lending agencies on the condition that TDB operate under venture capital status with tax exemption and that the benefits be passed on to the productive sector. These loans are for terms ranging from 7 to 15 years, with maturities extending to the year 2010.

As a public company, TDB's dividend pay out has been low with benefits to shareholders accruing primarily as capital gains. During the first three (3) years of its operation, no dividends were paid, as TDB committed these funds to the further development of the country. Subsequently, TDB's inability to raise Jamaican dollar funding has necessitated a conservative dividend policy (below market) whereby reflows are channeled into the productive sectors.

Additionally, tax savings from TDB's venture capital status has contributed to its Jamaican dollar resources for on going project financing at TDB's below market lending rates. Table 1 compares TDB's interest rates structure with the weighted average lending rates of commercial banks and reflects the passing on of these savings to clients.

TABLE 1
Comparative Interest Rate
Structure 1988 - 1994

Period	TDB Interest Rate (%)	Demand Loan Commercial Bk. (%)
1988 (Dec)	18	24.9
1989	18	28.2
1990	21	31.6
1991 (Nov)	27 - 30	40
1992 (Jan)	32 - 35	45 - 55
1992 (Oct)	32 - 38	45 - 62
1993 (Feb)	28 - 33	38 - 49
1993 (Aug)	32 - 35	46 - 66
1993 (Dec)	35 - 38	50 - 70
1994 (Jan)	38 - 42	54 - 70
1994 (Apr)	38 - 42	57 - 79

Source: 1988 - 1990 - Commercial Bank overall
average weighted loan rate
- Statistical Digest, September 1992;

1991 - 1994 - Based on TDB's monthly
interest rate survey

It should also be noted that while TDB reserves the right to adjust interest rates, it reviews its position only half yearly and in many instances no adjustment are made to the effect that a good portion of the portfolio booked prior to 1991 are still at rates of between 24 and 32%.

B: PROVISION OF FINANCING

Since inception, TDB has provided development funds in the form of loans, leases and equity investments to enterprises in the manufacturing (including agri- processing and mining), tourism, agriculture, services and horticulture sectors.

As at May 31, 1994, TDB had loan and lease commitments of \$909 Million to 146 business ventures. Disbursements to date total J\$707.2 Million . The sectoral distribution of approval and disbursement is shown in Table 2 & Figure 1. Given the fact that TDB's investment policy dictates a maximum 60:40 debt to equity ratio, it can be concluded that the total loan commitment of J\$909 Million would result in total investment outlays of J\$1.5 Billion in the productive sector over the last nine years.

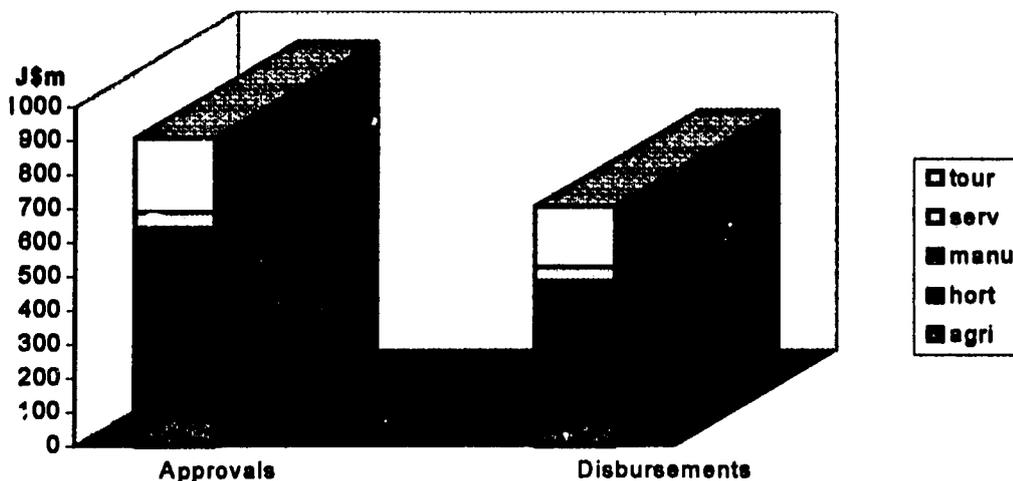
Together with its loan and lease portfolios TDB has also committed and disbursed a total of J\$25.6 Million in equity funds (Table 7 & Figure 3 on page 19 & 20 respectively).

**TABLE 2
TOTAL VALUE OF LOANS COMMITTED AND DISBURSED BY
SECTOR MAY 1994**

SECTOR	APPROVALS (J\$M)	% TOTAL	DISBURSEMENT (J\$M)	% TOTAL
Agriculture	99.3	11	88.6	13
Horticulture	24.2	3	13.0	2
Manufacture*	519.4	57	384.8	54
Services	48.7	5	41.7	6
Tourism	216.9	24	179.1	25
TOTAL	908.5	100	707.2	100

* includes agro-processing and mining

**FIGURE 1
VALUE OF LOANS COMMITTED & DISBURSED
BY SECTOR MAY, 1994**



TDB has also assumed the role of a wholesale bank for the micro enterprise development pilot project under an agreement between the Government of Jamaica and the Government of the Netherlands. These funds are channeled through Financial intermediaries, which include:

- * Six (6) Credit Unions;
- * ASSIST;
- * Self-Start Fund;
- * NDFJ; and,
- * Workers Bank through its Post Office Outlets.

This agreement provides loan and technical assistance funds for the strengthening of the lending capabilities of approved lending agencies. This includes restructuring, training of staff and the implementation of management and accounting systems. Of the J\$61.5 Million committed to

this project J\$46.5 Million or 75.6% has been disbursed to approved lending agencies. Technical assistance funds granted so far totalled J\$4.6 Million to 13 Affiliated Lending intermediary institutions.

TDB is also examining the possibility of giving further support to the development of the small business sector through the establishment of a small business window or an enlarged micro enterprise program. The majority of the funding would come from international lending agencies. The long term goal being to provide further assistance for the expansion of micro entrepreneurial projects originally financed through the pilot phase of the GOJ/GON program which compliments the Government owned micro enterprise project being administered by MIDA.

C: CONTRIBUTION TO ECONOMIC DEVELOPMENT

TDB's contribution to economic development is emphasized through the promotion and financing of projects in critical growth areas. These projects not only earn and or save foreign exchange but also generate significant employment and value added. This is amply demonstrated below.

1. Promotion and Financing Projects in Critical Growth Areas.

- **Non-metallic minerals:** TDB's involvement in this sector is in integrated limestone development and marble. Technical assistance funding has been provided for feasibility studies in these two areas as well as environmental impact assessment studies.

Information Technology: The introduction of financing to Data processing firms as far back as 1986. Of particular importance is the development of critical software packages for the international market.

- **Manufacturing:** All aspects of manufacture especially export manufacture. Of special interest is Remanufacturing of industrial and automotive parts using state of the art technology, such as Computer Aided Design (CAD), Computer Aided Manufacture (CAM) & Computerized Numerical Control (CNC), for key sectors of the economy, including sugar, bauxite, road construction and transportation.

- **Agro-Processing:** The processing of local produce (vegetables, fruits etc.) in the form of jams, jellies and spices, etc.

- **Eco-Tourism:** A pioneering development in the Port Antonio area which commenced operations in December, 1993. This project sets the stage for similar type and larger scale tourism development which not only provide significant economic and social benefits but is in harmony with the environment.

These projects not only earn and/or save valuable foreign exchange but also generate substantial employment opportunities, create significant value added and provide critical linkage effects within the economy.

2. Special Support Initiatives

Over the years TDB has also offered special support to all sectors. For example:

- ⇒ **In 1988/89, TDB pioneered efforts to rehabilitate projects affected by hurricane Gilbert by offering refinancing and restructuring packages which included the capitalization of interest at a fixed interest rate of 13% over the period of time**

taken to revitalize the projects. This programme was approved and implemented within three weeks after the devastation.

- ⇒ Special attention has also been directed to the Agriculture sector through the establishment in 1992 of a special soft-loan tranche of J\$10 million to projects in this sector. This was done at a time when the further development of this sector was severely threatened by prohibitively high interest rates, occasioned by World Bank and IMF policies.**

- ⇒ Additionally, TDB has consistently emphasized and supported key sub-sectors that have special problems in their development. These include the Information processing sector and the Horticulture sector.**

3. Promotion Of Balanced Growth and Development

An analysis of TDB's portfolio suggests that the institution has contributed significantly to the promotion of balanced growth and development within the economy. This is emphasized by the level of technology transfer, regional decentralization, value added effect, foreign exchange effect, market effect and environmental sustainability, resulting from project promotion and financing. These are illustrated below.

Technology Transfer

Due to the marked inadequacies of technology and management know-how in the productive sector, TDB's policy is oriented to facilitate the transfer of critical technology and ensuring their use in the national production process. An analysis of TDB's portfolio reveals that:

- ⇒ Of the 290 loans disbursed, 63% facilitated the expansion of business, 23% the development of new enterprises and 14% the introduction of new technology;
- ⇒ The tourism sector accounted for 36% of new businesses created while 33% of new businesses were created in manufacture;
- ⇒ Of the loans granted to facilitate the introduction of new technology 71% were in the manufacture sector;
- ⇒ Financing of business expansion in the manufacturing sector totalled 58% of total number of loans disbursed while Agriculture and Tourism each had 19%.

Regional Decentralization

Jamaica like most developing countries is experiencing a strong and growing trend towards urbanization and is therefore plagued by rural exodus of its population. In this regard, TDB has assisted in the development of the manufacture sector in the rural area. 40% of the total number of loans disbursed to the manufacturing sector were for projects located in these areas.

Value Added

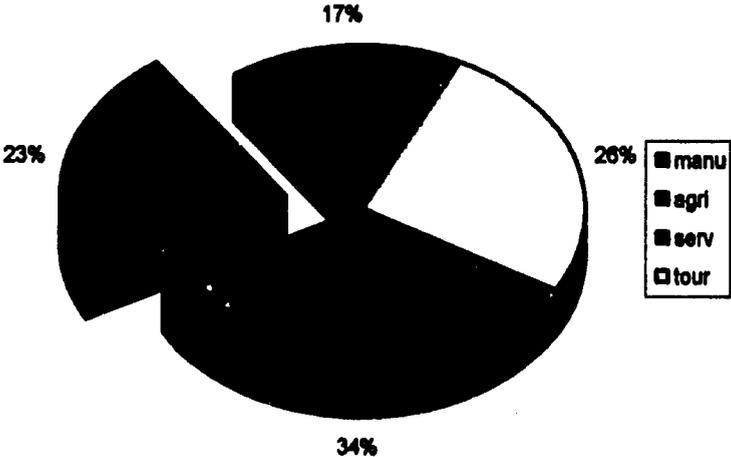
Value added is the result of the use of productive factors, in particular labor and capital, while preserving the potential and productivity of plant and equipment. The value added created by a company reflects its contribution to national Income in the form of wages and salaries, interest paid, rent paid, profits and depreciation.

While data for the estimation of actual value added created by companies financed is currently unavailable, an approximation can be made by assessing the employment created and to a lesser extent the annual turnover of these companies.

a) Employment Creation

Projects financed by TDB loans have directly provided more than five thousand (5,000) jobs along with significant amounts of indirect employment. Projects in the manufacture and tourism sectors provided the bulk of the jobs accounting for 34% and 26% respectively while agriculture, including horticulture, and services provided 23% and 17% respectively. (see Figure 2)

**FIGURE 2
DISTRIBUTION OF JOBS DIRECTLY CREATED BY SECTOR**



b) Annual Turnover

From the available data, projects financed by TDB have generated an average annual turnover of J\$46.5 million (Table 3). The manufacturing sector was the major contributor followed by Services, Agriculture and Tourism in that order. These estimates are understated as some companies have not submitted their latest annual reports.

The above suggest that significant value-added has been created by TDB's financing.

TABLE 3
ANNUAL AVERAGE TURNOVER BY SECTOR (J\$000'S)

Year	AGRI.		HORTI.		MANU.		SERV.		TOUR		WEIGHTED	
	No.	Average Turnover	No.	Average Turnover	No.	Average Turnover	No.	Average Turnover	No.	Average Turnover	No.	Average Turnover
1988	8	77,197	4	1,579	35	59,362	6	57,819	7	17,407	60	52,839
1989	8	46,680	6	1,344	35	36,822	6	17,719	9	42,479	64	33,733
1990	4	6,157	5	2,056	31	91,837	5	26,597	11	34,552	56	60,624
1991	4	7,697	4	1,085	27	114,971	6	52,208	11	13,284	52	34,058
1992	4	18,400	1	2,625	20	188,394	2	12,045	12	15,320	39	51,978
1993	9	7,050	2	1,804	8	161,383	-	-	11	12,278	30	45,629
m. Avg.		27,197		1,749		108,795		27,731		22,553		46,477

Market Effect

TDB has contributed significantly to an increase in the quantity and quality of goods produced and distributed locally. Of the total number of projects financed, 45% produced goods and services for the domestic market while 12% facilitated the import substitution process. (see table 4)

Table 4
Market Orientation of Project
Financed by TDB

MARKETS	%
Domestic	45
Import Sub	12
Foreign Trad	26
Foreign Non-Trad	17
	<hr style="width: 50%; margin: auto;"/> 100 <hr style="width: 50%; margin: auto;"/>

TDB has also played a critical role in the diversification and penetration into new markets through financial assistance granted in the form of foreign exchange loans to exporting companies. In this respect, TDB has played a pioneering role in long term foreign exchange lending. To date a total of US\$30 Million has been approved. This represent 66% of total funds committed. Of this amount US\$28 M has been disbursed in all sectors. (see table 5)

TABLE 5
VALUE OF DISBURSEMENTS BY SECTOR
AND LOAN TYPE (\$m)
MAY 1994

SECTOR	LOAN		LEASE		EQUITY	
	J\$	US\$	J\$	US\$	J\$	US\$
Agriculture	49.6	1.1	1.1	-	1.0	-
Horticulture	7.3	1.4	-	-	2.0	-
Manufacture	170.5	15.8	42.1	0.5	4.9	0.3
Services	29.2	1.3	8.9	-	1.9	-
Tourism	42.8	8.3	0.3	0.8	2.0	0.9
JVF ¹					1.7	
TOTAL	299.4	27.9	52.4	1.3	13.5	1.2

TDB's long term foreign exchange lending came at a critical point when the economy was experiencing a severe shortage of foreign exchange to finance the productive sector and when other financial institutions were only issuing short term credit. Of the total number of projects assisted, 26% produced goods and services for foreign traditional markets while a significant 17% produced for foreign non-traditional markets.

Foreign Exchange Effect

The assessment of the foreign exchange effects of the projects financed by TDB is based on forecasts of the entire operational phase of the respective companies as well as actual figures up to the time of evaluation. Table 6 shows that the amount of foreign exchange earned and saved, by companies financed by TDB, is significant. Net expected foreign exchange earnings over the life of TDB loan is estimated at US\$753M while net expected foreign exchange saved is estimated at a further US\$228M.

¹ TDB has committed a total of J\$2m as start up Venture Funds to the Jamaica Venture Fund

TABLE 6
ESTIMATED NET FOREIGN EXCHANGE
EARNED AND/SAVED BY SECTOR (US\$m)

	Agri	Horti	Manu	Serv	Tour	Total
Net expected fx earned	51.0	32.7	197.8	29.7	441.8	753.0
Net expected fx saved	29.5	0.2	195.4	2.6		227.7

Environmental Sustainability

TDB's development policy objectives emphasizes the promotion and financing of environmentally sound development . Projects can only contribute to sustainable development if they are both profitable and environmentally compatible. TDB therefore stipulates that Environmental Impact Assessments (EIAs) play an integral part of the planning of projects.

In this respect, TDB liaises directly with the NRCA and other environmental agencies to ensure that the projects financed conform to environmentally acceptable standards. Environmental Impact Assessments are therefore fully integrated into TDB's project appraisal procedures. The EIAs must not only describe the environmental effects of the proposed project but must also recommend protective measures to be undertaken. This is also a requirement of all our international funding agencies.

To emphasize our concern for and commitment to environmental protection TDB has negotiated with the DEG technical assistance funds that is currently being used as grant funds to finance EIAs for qualifying projects in all sectors, but particularly in Tourism, Mining, large scale Manufacture and Agriculture. To date a total J\$900,000 has been granted to assist companies to carry out EIAs.

D: VENTURE CAPITAL FINANCING

The development of venture capitalism in Jamaica has been a slow process. Among the factors affecting its development are:

- **a business culture which is intolerant to outside participation, and a heavy reliance on high leverage financing;**
- **interest rate policies which discourage equity investments, e.g. high rates offered on alternative non-risk investment such as Treasury bills and Bank Certificates of Deposit;**
- **an underdeveloped capital market;**
- **a tax system which favors corporate leverage financing while discouraging equity investments. Interest expenses are tax deductible while corporate profits attracts double taxation.**
- **a fear of being taken over, primarily at the small and medium size level.**

Despite these constraints, TDB has, over the years, pioneered the development of the equity market. This is exemplified by the bold initiatives taken by TDB to promote equity investments. Since inception, as a matter of policy TDB has insisted on a debt to equity ratio of 60:40.

Given the reservation on the part of potential clients towards equity investment, TDB sought to develop a 'soft sell' mechanism to introduce this form of financing. To facilitate this process, TDB in early 1990:

- 1) negotiated a loan from the EIB of the equivalent of J\$22m to enable us to finance equity investments in new and expanding business in the productive sector. These funds were available in foreign exchange or local currency and carried no foreign exchange risk to the recipients;
- 2) targetted the JMA and the JEA to emphasize the benefits of appropriate capital structuring and the concomitant need for equity investment. TDB has worked through them to establish contact with businesses in the productive sector which would need equity infusion to address their financial inadequacy;
- 3) promoted a low cost easily acceptable 'pure vanilla type' 7.5% cumulative, non-participatory, non-voting, redeemable preference share. The average redemption period being 5 years.

TDB's active participation in and promotion of Venture Capital activities is further highlighted in two critical areas, Collaborative Promotion and Direct Equity Financing.

I. Collaborative Promotion

TDB has systematically embarked on venture capital promotion and funding in conjunction with other organizations. These organizations include:

- **Jamaica Venture Fund (JVF):** TDB played an active part in the design and establishment of this institution

through the provision of technical assistance for the feasibility study and the injection of initial equity capital valued at J\$2Million;

- **National Development Foundation of Jamaica (NDFJ):** TDB closely collaborated with NDFJ to develop appropriate subscription instruments for small businesses for that institution's small businesses venture capital window;
- **Scientific Research Council (SRC):** TDB promoted the concept of the financing of projects from the prototype stage, as developed by the SRC, to a commercial through the use of venture capital.

- **the Ministry of Foreign Affairs and Foreign Trade and the Ministry of Public Utilities, Transport and Energy,** in the development of financing options, including equity participation, for the development of solar energy in Jamaica.
- **Music/Entertainment Industry Seminar: Promotion of and investment in the music/entertainment industry as a viable area for development.**

II. Direct Equity

TDB has provided direct equity participation as well as a mix of funds (loan and equity) in unique packages which effectively lowers the overall cost of financing. This is critical to the survival of the productive sector especially in periods of high interest rates.

A total of J\$26.5M (J\$ 13.5M and US\$ 1.2M) has been disbursed as risk capital.

- 57% went to companies in the manufacture sector while 16% and 13% financed companies in tourism and agriculture respectively (see table 7 and figure 3).
- A total of J\$2.3 Million has been invested in the service industry of which J\$1.5 million was for the promotion and development of the music/entertainment industry.

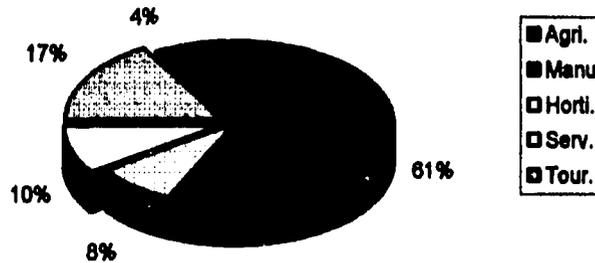
To further emphasize this commitment, and as mentioned earlier, an additional sum of **US\$3.5 Million** has been mobilized from the EIB. Under the terms of this agreement TDB must match these funds from its own resources on a 1:1 basis. This means that a total of **US\$7 Million** or **J\$235 Million** is now available specifically for equity financing to the productive sector.

TABLE 7
VALUE OF EQUITY COMMITMENT
BY SECTOR (JSM) May 1994

Agri.	1,000,000.00
Horti.	2,000,000.00
Manu.	14,590,000.00
Serv.*	2,343,150.00
Tour.	4,000,000.00
JVF	1,650,000.00
Total	25,583,150.00

* J\$1.5 m was committed and disbursed to the music/entertainment industry

**FIGURE 3
SECTORAL EQUITY DISTRIBUTION**



Further emphasis is given to this thrust as, the Income Tax Act - Approved Venture Capital Company. Section 36 (a) subsection 7 states that ; loans are classified as venture capital activities. This means that TDB has made available a total of J\$844 Million (Loans of J\$817.5m + Equity of J\$26.5m) for venture capital financing. Of this amount approximately J\$172 Million or 24% financed new ventures.

TDB's venture capital financing has facilitated the creation of new businesses and the restructuring and expansion of existing enterprises for entry into the export market. The manufacturing sector accounted for just over 50% of total equity investments while 40% went to businesses targeting the traditional and non-traditional export markets.

2. PROMOTIONAL ROLE

The promotional role of TDB, as a development institution is circumscribed by the following:

- **investment promotional activities and the provision of technical and management assistance for the identification, preparation, implementation, and supervision of projects that conform to the country's development plan;**
- **promoting research and development in key area through close collaboration with the Scientific Research Council;**
- **supporting the development of the capital market;**
- **promoting environmentally sound development by insisting on a mandatory EIA for all major projects to ensure that they conform to restrictive environmental regulation and standards.**

- **provision of technical assistance funds for feasibility studies and for environmental impact assessment studies. TDB manages two (2) technical assistance funds for which annual contribution totalling some J\$6 Million will continue to the year 2010. Since 1991 TDB has provided technical assistance funds J\$4.8 Million to 20 clients. Of this amount:**
 - **J\$2.3M or 46% for feasibility studies;**
 - **J\$0.91M or 19% for EIAs;**
 - **J\$.98M or 20% for scholarship at the University of the West Indies for agricultural studies; and,**

- **J\$0.7M for other technical assistance, including J\$483,000 to Monro college for support to its Agriculture Training Programme.**
- **initiating the feasibility study for the development of a Plant Pathology Center in conjunction with the University of the West Indies. In this regard, discussions are in progress with the Minister of Agriculture and the UWI.**
- **promoting and sponsoring the ongoing development of the Youth in Agriculture program of which one of our Managers is chairman; and,**
- **active participation in the further development of science and technology, including the development of endogenous technology program sponsored by the UNDP/GOJ.**

These areas are our focal points of venture capital financing and promotion. At this stage, because of recent developments in the economy (liberalization and privatization), we see the provision of risk capital as critical since current policies of liberalization tend to promote increased risk factors. This is especially so where businesses are forced to introduce new and innovative technology to develop new products for entry into export markets.

TDB is now poised to further promote and develop venture capital financing. In fact, the second major loan of US\$6M plus US\$3.5 M negotiated with the European Investment Bank (EIB) along with TDB's counter part funds of US\$3.5M will be used towards this end. This loan, which is now available, will facilitate the introduction of new and innovative instruments of financing (equity and quasi-equity) into the Jamaican economy as well as facilitate Jamaica's export thrust through "Target Europe".

FUTURE PROSPECTS

The changing economic environment requires that financial institutions gear themselves to be more proactive, innovative and flexible, to give the necessary support to the productive sectors.

Although TDB has played a critical role in supporting the economic growth and development of the country over the past nine years, the increasingly competitive economic environment demands that we expand the scope of our activities, including the provision of a wider range of carefully developed products and services, fashioned to support enterprise, growth and development.

TDB is gearing itself to meet these challenges. In fact, a number of initiatives, outlined earlier, have already been taken and the momentum achieved will be reinforced by new initiatives in the following areas:

a) Mobilization of Finance

As a development finance company TDB's access to local currency funds has been limited to its equity capital and reflows. While TDB can raise foreign currency loans internationally, we have serious problems generating Jamaican dollar funds. This is due to the following:

- ⇒ the investment climate is not yet receptive to investments in long term instruments;
- ⇒ current high interest rates for deposit instruments; and
- ⇒ the inability of TDB to give security.

However, there is a growing demand for local currency to finance projects that produce for the domestic market and also for projects that provide important inputs for the companies engaged in exports. In attempting to address the problem, TDB will continue to broaden its capital base as a means of attracting resources to meet the future demand for local currency

funds. In addition, we are examining the feasibility of developing an appropriate medium to long term instrument that will be attractive under current market conditions and yet enable us to maintain our development bank lending posture.

Emphasis is also being placed on the mobilization of medium and long term foreign exchange resources from a wider source. The success of this initiative will not only improve the foreign exchange position of the country but will provide an increasing supply of hard currency to the productive sector.

In this regard, TDB is maintaining constant contact and dialogue with local and international agencies .

b) Restructuring

TDB is now undergoing restructuring to improve its efficiency and gear itself to meet the needs of an increasingly competitive international economic environment . Towards this end we have collaborated with the DEG to access Technical Assistance funds from the German Government through the Deutsche Gesellschaft fur Technische Zusammenarbeit (GTZ) which are being used for the training of TDB staff , engaging the services special consultants and to provide for the technical upgrading aspects of the restructuring. This process of restructuring will facilitate the provision of stronger support to specific target sectors such as Agro-processing, Manufacture, Music/ Entertainment, Information processing and Mining.

Through this restructuring TDB will:

- ◆ With the assistance of a consultant, with considerable international experience and track record, provide instruments that will facilitate the development of the equity market;**

- ◆ develop a strategic branch expansion to Western Jamaica which will enable us to respond to the development needs of clients in that area of the Country;
- ◆ continue to play a highly supportive role to the micro-enterprise sector through technical assistance, commitment of our own resources , as well as raising additional capital in further support of the project;
- ◆ in association with the DEG provide additional funds for environmental assessment of projects and other technical assistance funds to develop the management skills of clients and potential clients. Discussions are now being held with CAST to determine and ultimately develop the necessary level and type of vocational training needed;
- ◆ be able to syndicate the financing required for larger projects using a mix of funds and instruments in conjunction with our international lending agencies; and,
- ◆ work closely with the JMA and JEA to conduct studies and research for the development of key target areas which will contribute significantly to the growth of the economy, relieve unemployment and generate hard currency.

CONCLUSION

In summary, given,

- I) TDB's contribution to the mobilization of capital, the financing of businesses through loans, leases and equity participation and the resultant contribution to economic development in terms of significant employment generated, value added created, foreign exchange saved and earned and the promotion of balanced development;
- II) Its role in the establishing of a separate venture fund (Jamaica Venture Fund) and promoting the use of Venture Capital Financing;
- III) Its pioneering role in equity financing and the mobilization of additional long term equity funds from international organizations (EIB);

- IV) Its pioneering role in foreign exchange loans and its contribution to export promotion through “Target Europe”;**
- V) Its leading role in the Youth in Agriculture Program;**
- VI) Its leading role in seeking to determine the viability of establishing a Plant Pathology Center;**
- VII) The granting of 6 Agricultural Scholarships over the next 3 years;**
- VIII) Its critical role in the promotion and protection of the environment through financing of only environmentally friendly projects and the mobilization of Technical Assistance funds to facilitate Environmental Impact Assessment Studies;**
- IX) Its promotion and development of Eco-Tourism;**
- X) Its participation in the further development of science and technology;**
- XI) Its promotion of the development of endogenous technology through equity financing; and,**
- XII) The promotion and development of the high risk sectors (Agriculture, Information Processing) and the non-traditional sector, including Agri-Processing and mining (non-metallic minerals).**
- XIII) Its demonstrated ability to effectively channel funds that might be available for development purposes under a selective interest rate policy.**

It can be concluded that TDB has fulfilled its mandate as a Venture Capital institution. However, there is still much to be done to promote and finance the productive sector which challenge TDB will continue to take up so as to contribute to the further growth and development of the nation.