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EVALUATION

Fondo de Inversion para Exportaciones
(FIDEX)

for

USAID EL SALVADOR

by

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EXECUTIVE SUMMARY

The Fondo de Inversion para Exportaciones (FIDEX) is the financing division of the Fundacion para el Desarrollo Economico y Social (FUSADES) which was formed to support the FRIDEX industrial export promotion and the DIVAGRO agricultural and agro-industrial export promotion divisions about two years ago. FIDEX is charged with on-lending three USAID project funds to the private sector. The Water Management Project 519-0303 is for \$10.8 million in local currency for irrigation and related horticultural projects; it is 80% lent. Project 519-0287 Industrial Stabilization and Recovery is \$15 million available only in US dollars; five projects totalling \$4.6 million have been approved, and \$404,000 have been disbursed. The Agribusiness Development Project 519-0327 is for \$10 million available in dollars for the import of equipment, and dollars or local currency for working capital purposes; two projects totalling \$4.9 million have been approved, but no disbursements have taken place.

All USAID funding of FIDEX is on a grant basis thus far. Under agreement, all FIDEX loans to its customers are strictly for appropriate export promotion projects pursuant to USAID project requirements until the USAID project funds have been totally utilized. Until then, repayment of principal and interest received by FIDEX are invested in separate time deposit accounts. FIDEX may use the interest received to cover its, and other FUSADES operating costs, but it must re-lend principal for purposes consistent with the USAID projects. The re-lent principal, and interest in excess of FUSADES costs, if any, is considered FIDEX capital.

Promotion of projects to be financed by FIDEX is primarily the function of the promotional responsibilities of the FRIDEX and DIVAGRO divisions, who also assist in preparing the necessary feasibility study for the client, or provide financing for up to 65% of the cost of the preparation of the study. When a project comes in, or is solicited by FIDEX directly, it is referred to its sister divisions for market and technical analysis. FIDEX is responsible for reviewing the financial viability of the project pursuant to a number of guidelines set forth by USAID. The basis of the review is the capacity and character of the sponsor of the project, the feasibility study, and a sign-off for market and technical viability. FIDEX Credit Committee approval is based upon the financial ability of the project to service its debt. Guarantees are requested, but reliance upon guarantees has not been the primary reason for approving a loan. The evaluation team examined several approved projects, and finds that development lending

criteria, reliance upon cash flow rather than guarantees is being applied.

As only one disbursement has been made under the US\$ trust agreement between Cititrust, Bahamas, and FIDEX, the evaluators also reviewed the local currency disbursements under the 0303 Water Management facility which are identical to those which apply to 0327 Industrial Development. Generally, procedures are tight with very thorough controls which are followed to ensure that loan proceeds are spent for the purposes intended.

The administration of the loan portfolio, monitoring the progress of projects during the construction stage, and the subsequent operation of the borrowers, is the primary responsibility of FIDEX. However, they are supported by both PRIDEX and DIVAGRO who also make periodic visits with their customers and stand ready to offer technical or market assistance if required. The loan repayment process is further assisted by the practice of requiring retention agreements, monitored by FIDEX, which call for the direct payment of a portion of the export proceeds by the borrower's foreign customer into the account of Cititrust where they are accumulated to meet future loan maturities.

The evaluation team concludes that FIDEX is operating within a body of sensible and well designed procedures. The staff is capable, and experienced in sound commercial banking practices; they are developing the ability to view a project through the eyes of a development banker with greater reliance on the merits of the sponsors and the project itself, rather than on the value of the collateral offered. Although outside the scope of this evaluation, the evaluators reviewed a sample of loans approved under the Water Management facility, along with each of the seven loans approved under the facilities being evaluated. Feasibility studies were good, and the financial analysis performed by FIDEX was up to international standards, acceptable for presentation to the credit committees of the New York banks with which one of the evaluators has been associated. The number of projects in process at this time is sufficient to exceed present approval limits pending this review, and substantial usage of both facilities can be expected within coming months.

FUSADES corporate structure places FIDEX as a division thereof, in a rather unique position which will someday have to be addressed. FIDEX will probably have to obtain legal status as a financial institution which it is not today. We recommend that, while possibly thinking toward the future, FIDEX concentrate on building and administering the export development loan portfolio, and fully utilizing the USAID

project funds which it has been awarded. FIDEX, further, should improve planning and marketing relationships with its sister divisions; project flow is not coordinated during the early stages, and FIDEX does not know all of the projects in the pipeline. Lastly, FIDEX's conflict of interest regulations should be reviewed once again with USAID to ensure that they continue to be in accordance with the latest requirements.

A second procedural evaluation should be performed during May or June of next year by which time there will have been sufficient activity under Projects 0287 and 0327 to provide the basis for more complete commentary on the procedures relating to these two projects.

I. FINDINGS

A. BACKGROUND AND OBJECTIVES OF EVALUATION

The Fundación Salvadoreña para el Desarrollo Económico y Social (FUSADES) is a major implementing agency for various Mission programs designed to promote non-traditional exports. Extensive technical and marketing assistance is made available to interested entrepreneurs through two FUSADES' offices: DIVAGRO for agriculture and PRIDEX for light industry. Credit necessary to activate the resulting non-traditional export proposals is offered by the financial arm of FUSADES, the Fondo de Inversión para Exportaciones (FIDEX).

FIDEX is charged with onlending AID funds to the private sector for projects that generate substantial employment and foreign exchange. The major funds are: \$10.8 million only in colones (local currency) for irrigated horticulture under Water Management 519-0303, \$15.0 million in US dollars for light export industry under the Industrial Stabilization + Recovery Project 519-0287, and \$10.0 million (both dollars and local currency) under the Agribusiness Development Project 519-0327.

An off-shore Trust Agreement was designed in 1986 to address the then critical shortage of foreign exchange to fund non-traditional export oriented investments. Although funding for the 519-0287 Industrial Trust was obligated, the Trust itself required two years of negotiation between USAID/ES, AID/W, RLA, FUSADES, a U.S. law firm, and Citibank. Credit funds did not become available until a year ago: August, 1988. At the same time, FUSADES met conditions precedent for the \$10.0 million credit line under the Agribusiness Development Project 519-0327.

In November 1988, FIDEX expressed its concerns about restrictions to lending under 519-0287. In a December 9th meeting, FUSADES maintained that the credit environment extant in El Salvador when the Project was designed had changed and that its credit programs needed to be modified to adjust to these new conditions. Specifically, the Foundation cited a loosening of the balance of payments (BOPS)--generated local currency lines at the Central Bank (BCR) at interest rates that became negative, considering the inflationary environment and related fears of devaluation. FUSADES requested that the FIDEX program be amended to permit: (a) colon lending in the Industrial Trust, (b) short-term working capital loans, and (c) waivers of source and origin requirements.

Documentation required for USAID to support the FUSADES request for changes to the 519-0287 Agreement was provided on December 20. On January 27, after much USAID analysis and

after consultation with AID/W during the SAR Reviews, the USAID Director informed FUSADES that AID could not at that time support major modification of the FIDEX program; that FIDEX should review its credit approval criteria; and that FIDEX must either "use or lose" its credit funding. FUSADES and USAID subsequently agreed to collaborate in determining what effective changes could be made within Project parameters to get the credit programs working.

Both AID and FIDEX agreed that the problems of the Industrial and Agribusiness credit programs were different. The Cooperative Agreement for the \$15.0 million Industrial line required dollar-denominated loans at LIBOR + 2 points; minimum terms were 3 years, and any foreign procurement had to be US origin. None of these restrictions were serious constraints to the Agribusiness lines.

AID/RDO had other concerns. FIDEX was rapidly committing colones under the companion \$10.8 million credit of the Water Management Project. However, continued colon lending, unprotected by "maintenance of value" clauses, risks future portfolio degradation under probable devaluation scenarios, thus reducing potential interest income needed by FUSADES to achieve self-sustainability.

Moreover, the outreach to nontraditional processors and exporters seemed to be limited. The 519-0327 Project Paper cites "...excessive physical guarantee requirements for 'new type' activities and the inability of local commercial banks to...provide financial intermediation on a projected cash flow basis..." as reasons for establishing this developmental credit window outside the commercial banking system. FUSADES, the grantee, was expected to use its huge interest-rate spread to mound an agile and innovative lending program, with heavy technical support from DIVAGRO and PRIDEX. However, FUSADES adopted essentially commercial bank practices in lending under the Water Management Project and continued to apply such policies to applicants for the Agribusiness credit line.

Such practices were inconsistent with the rationale behind a grant-funded credit line. Implementation adjustments were required to conform FUSADES lending operations to the intent of the Project and to achieve acceptable disbursement rates.

The Mission held extensive reviews with FUSADES on credit policy, procedures and criteria during January-April of 1989. A seminar featuring three development bankers was followed by visits of FIDEX managers to COFISA in Costa Rica and LAAD in Guatemala. The negotiation led to agreements on: (a) loan approval criteria, (b) guidelines for dollar and

colon lending, (c) minimally acceptable commitment and disbursement schedules, (d) eligibility criteria for borrowers, and (e) conditions for equity positions.

Attachment No. 2 of Agribusiness 519-0327 was rewritten. In this amplified Program Description (incorporated as PIL No. 19 in June) FIDEX agreed to emphasize cash flow analyses, rather than collateral, in approving agribusiness loans.

The last week of May, when AID permitted a 9% interest rate on \$4.65 million of dollar loans under Industrial Stabilization 519-0287, FIDEX was able to place the funds promptly with the Salvadoran drawback garment industry. About \$5.0 million for sesame and shrimp farming was approved under the Agribusiness line by the FIDEX Credit Committee on July 6, 1989, but is still subject to AID Mission review. Projects likely to request another \$3.0 million in agricultural credits are under development by DIVAGRO.

Now, before FIDEX can continue commitments under either the 519-0287 or 519-0327 credit lines, an assessment of its overall operations is required under Covenant 3-b of Attachment No. 1 of the Cooperative Agreement of Project 519-0327. Signed on September 29, 1987, this covenant states:

..."FUSADES agrees that before committing any AID funds in excess of an aggregate amount of \$4,000,000 for the Investment Fund established under the Industrial Stabilization + Recovery Project and the credit activity under this Agribusiness Development Project, AID and FUSADES, with outside assistance, will undertake an assessment of the credit funds' operational performance and of the systems which FUSADES employs in making lending/investing decisions. The findings...will be incorporated by FUSADES, as appropriate into the lending practices and operations..."

A similar covenant is contained in the Cooperativa Agreement 519-0287. The objective of this assessment to respond to these Covenant requirements, detailing the policy, process and procedures actually used by FIDEX to manage these two credit lines. Discrepancies between actual versus AID-approved practices are analyzed. An assessment of FIDEX performance in promoting, analyzing, approving, and monitoring loans is followed by recommendations for improvement.

B. CREDIT LINE USAGE

FIDEX's Credit Committee has approved 7 loans, all for production to extra-regional market, totalling \$9,731,148

Didn't we have an \$1.0 ceiling?

(equivalent), as follows:

<u>Borrower</u>	<u>Industry</u>	<u>Amount (Use)</u>
<u>Credit Line 0287</u>		
Specialty Products (Expansion)	Specialty paper bags for US stores	US\$ 404,000 (machinery) 308,000 (working capital)
Maquilas Sal- vadoreñas (new)	Apparel manufacture from imported materials	US\$ 269,666 (machinery) 135,437 (working capital)
Hilanderías de Exportación (new)	Cotton thread	US\$2,500,000 (machinery, equip- ment, building)
Industrias Florenzi (Expansion)	Apparel	US\$ 875,246 (machinery and equipment)
Acero (Expansion)	Manufacture of nails	US\$ 90,000 (machinery & equipment)
<u>Credit Line 0327</u> 10 n		
El Forvenir (new)	Shrimp Aquaculture	US\$ 791,197 (Pond installation equipment, working capital, etc.)
Productos Alimenticios (new)	Sesame Processing	US\$ 4.1 million (Building & installation costs, equipment, working capital)

If all seven loans were disbursed as anticipated (only \$404,000 has been disbursed so far), FIDEX expects to draw down \$4.6 million of the industry line and \$4.9 million of the Agribusiness line, of which \$1.7 million (equivalent) will be in colones. The Industrial loans are more likely to be disbursed in a timely fashion, and in the amounts indicated.

Impact

Annexes 3 and 4 set forth details of FIDEX's portfolio and anticipated foreign exchange and employment benefits. The quantity and quality of impact in the latter two categories constitutes FIDEX's principal developmental objective.

The seven projects approved could cause the creation of approximately 1,173 direct new jobs in their first typical year of operation. Indirect employment, mostly generated by purchases from small farmers and, to a lesser extent, part-time work related to the shrimp project, could number more than 10,000. Net foreign exchange income to El Salvador is projected at more than \$15.0 million a year.

Estimates are based on the contention that new projects financed by FIDEX would not otherwise have been implemented, at least in the foreseeable future. This is probably true. The figures are predicated on the further assumption that all projects will succeed and achieve projected levels of production. This may not be justified. Several of the companies financed by FIDEX will probably require loan reschedulings to permit them to deal with problems which invariably arise with new projects and often occur in the case of expansions into new activities, differing substantially (in production and/or market terms) from the borrowers' principal line of activity. For instance, no matter how well conceived, implemented and monitored, Forvenir (the shrimp aquaculture project) should be expected to require special attention for several years, including reschedulings of debt.

However, aquaculture is a commercially proven means to produce shrimp and is practiced successfully in various parts of Latin America, including Central America. There is no reason why El Forvenir should not, eventually, succeed, and it will have made a very substantial contribution to El Salvador's development, not only because of its own success, but because of its pioneering contribution to the development of a major new industry.

The six other projects appear to be less risky, but by no means certain to succeed. All but one are justifiable on the grounds of employment created and all create substantial foreign exchange earnings in relation to the amount of the loans. ACERO, S. A., for example, is applying FIDEX funds to the production of nails, a new product line for the company, destined to U.S. market. This is a low-value product, by weight, and will be able to succeed only if it can overcome

freight costs through a highly efficient operation.

Even the drawback industries financed by FIDEX will live precariously. These companies tend to depend on one U.S. client who, if lost, could leave the borrower without a market.

The most developmental (in terms of job creation) is Productos Alimenticios, a sesame decorticating plant. The project provides for the construction of a new building and installation of existing equipment which is presently at another site. While some new equipment is required, existing processing machinery is adequate to permit the company to substantially increase its level of production. The largest portion of the loan requested would be for the purchase of raw sesame from small farmers, most to be put out as advances to farmers.

The company needs to encourage a significant increase in sesame production in El Salvador in order to make full use of its existing production capacity. This would appear to be beneficial to El Salvador since this crop is produced generally by small farmers working poor land. Sesame is a risky business, and the Salvadorans will, like the Guatemalans, often be at mercy of world prices affected by Mexico and China. There may, however, be no other crop that makes better sense for El Salvador.

FIDEX's Credit Committee approved a \$4.1 million loan to Productos Alimenticios. It does not anticipate disbursement will total so high a figure. FIDEX proposes that its entire loan to this borrower be in dollars. Productos Alimenticios will finance as much of its needs as it can in colones and accept dollars only if it must. It seems probable that any portion loaned in dollars by FIDEX is unfinanceable from any other source.

The seven projects approved by FIDEX may not constitute a fair picture of the nature of its ultimate portfolio, but, barring a very dramatic change in Salvador's situation, these initial investments probably do, in fact, indicate the realities of FIDEX's task.

C. PROMOTIONAL POLICIES AND PROJECT DEVELOPMENT

FIDEX, established as the financing division of FUSADES, relies on the industrial non-traditional export promotion division, PRIDEX, and the agricultural export promotion division, DIVAGRO, for originating the great majority of the potential project loans for FIDEX review and financing. The structure of FUSADES was designed this way, with FIDEX

providing financing when considered prudent, following a decision made independently and objectively. It should be emphasized that, at this stage, almost all of the credit approved and disbursed by FIDEX have been generated by its sister divisions, primarily under the 0303 Water Management facility. Annex 6 sets forth transactions in process.

Of the seven loans approved by the FIDEX Credit Committee thus far under 0287 and 0327, five have originated with PRIDEX, and two with DIVAGRO. FIDEX has booked 20 loans totalling about \$8.0 million under AID's Water Management facility (0303). Of these, most were referred by DIVAGRO, but two were solicited directly by FIDEX and approved after DIVAGRO technical approval. FIDEX has introduced several projects itself, which are in early stages of structuring.

The team conducted a number of interviews with senior personnel and analysts from both PRIDEX and DIVAGRO, due to the importance of these two promotional divisions on the type and volume of projects available to FIDEX for review and possible financing.

1. PRIDEX Division

PRIDEX is responsible for the promotion of manufactured non-traditional exports, and for providing technical assistance to individuals and firms interested in producing for export. The division is divided into a textile section and a light manufacturing section. Potential projects arriving at PRIDEX can be in the form of a new or untested idea from a Salvadoran or foreign businessman, as a new product for an existing manufacturer, or the expansion of an already successful exporting facility. PRIDEX will assess the project or idea for its potential merit, and if deemed acceptable by both parties, is in the position to assist the customer by funding 65% of a feasibility study to be prepared by outside consultants. PRIDEX is also able to make use of its Miami office and Washington, D.C., representative to both assist in promoting investment and in obtaining customers in the U.S. market. Lastly, if PRIDEX believes that the customer and the project qualify to proceed, it may refer the customer to FIDEX for preliminary discussions, if the customer requires financing. Usually, however, PRIDEX does not refer the project to FIDEX until it has received, reviewed, and approved the feasibility study. The process for a new project, we were informed, usually takes six months or more, from the time that PRIDEX is first approached until the time that the project is formally referred to FIDEX for review and possible financing, due to the preparation of an acceptable feasibility study, which often requires considerable revision. A project for expansion of an

existing operation may take less time.

At this time, PRIDEX has eleven projects under consideration in various stages. Six of these were originated by FIDEX officials and referred to PRIDEX. One, DELMED, produces cobalt tracers and may have a problem with toxic waste disposal; others include expansion in plastic bags, ceramic capacitors, bakelite, and other products, and are sponsored by capable local and foreign firms, and will probably materialize.

As FIDEX will not present to its Credit Committee a project that has not been given a technical and market sign-off by PRIDEX, the turn-down of projects occurs mostly before they are referred to FIDEX. Because the financial conditions can be massaged by the Credit Committee, such as requiring more equity in the project or additional guarantees, few projects are turned down by FIDEX.

2. DIVAGRO Division

The promotion of non-traditional agricultural or agro-industrial projects by DIVAGRO is handled by five sectoral sections: Aquaculture, sesame and import substitution products, fresh products (melons, etc.), agroindustrial group and other products (spices, flowers, etc.).

DIVAGRO, as compared to FIDEX, is proactive as well as reactive in its promotion efforts. In addition to its ability to respond to inquiries for assistance in developing a project with technical and market information, or actual marketing assistance through its Miami office, DIVAGRO operates three agricultural experimental stations and an aquaculture operation for fresh-water fish and shrimp raising. It is thereby able to determine a need in the US or other markets, and undergo the experimentation necessary to determine whether or not Salvador is suitable for raising the product to fulfill the need on competitive basis. If so, DIVAGRO will undertake to interest Salvadoran farmers in producing the item.

DIVAGRO has sponsored several seminars, open, to all interested parties, to publicize opportunities of this type. For instance, Vlasic Pickles contracted research on the possibility of growing a variety of sweet pickle new to El Salvador; when proven, DIVAGRO conducted a seminar to inform farmers of the possibility of growing this pickle and selling into an assured market. In other words, DIVAGRO plays a role in identifying and developing new, market driven products for production by the local farmers.

Technical and market feasibility are the aspects of a project which DIVAGRO is expected to approve and monitor, for FIDEX, and increasingly, for any other lender. Since FIDEX does not do seasonal crop financing, the borrower must seek this financing from the commercial banking system who have begun to rely on DIVAGRO's technical expertise and project monitoring record. Therefore, FIDEX project financing is often not sought, since banks might lend the medium-term investment financing required by its client as well. The flow of projects for review by FIDEX from DIVAGRO is, therefore, somewhat more problematical than in the case of FRIDEX. DIVAGRO project management estimates that probably only five per cent, or one in twenty of its customer contacts will result in a loan for FIDEX. The remainder, those not turned down, are financed in the local banking system.

At the present time, the FIDEX Credit Committee has approved two DIVAGRO originated projects, one for shrimp and one large sesame system project. Three additional shrimp projects and three melon hydrocooler projects are in the DIVAGRO pipeline, and are to be forwarded to FIDEX in the near future. These represent a possible additional \$2.4 million in shrimp and \$335,000 in melon infrastructure.

FIDEX is not interested in doing more than the one shrimp project approved at this time, so the others will probably be delayed until next year for disbursement, if approved, due to seasonal considerations for construction. In addition, DIVAGRO is studying three FIDEX originated projects which are in the initial stages. There is a \$400,000 wood furniture expansion project, a project to grow ornamental plants, and a potentially large and complex project to extract a papaya enzyme.

3. FIDEX

The management and business plans of FIDEX call for the complete utilization of Projects 0287 and 0327 funds by the end of 1990. This is within life-of-project requirements.

FIDEX management believes that its slow start is due more to external circumstances during the past year than to improper planning, execution, or unrealistic requirements. In addition to the continuing political turmoil, an excess of dollars in the system, political uncertainty awaiting election results, and certain AID requirements (since modified) contributed to the problem. Most of these situations have been resolved or clarified to some extent, and an increase in the propensity to invest has been noted since the March elections. Management feels that project goals will be met, and that AID's additional goal of

institutional sustainability for FUSADES is at least partly achievable--fully achievable if FIDEX is eventually licensed to seek funds in the market on its own, and other division activities are reduced.

When FIDEX was created, it immediately began to structure projects under Water Management; 20 projects for \$8.0 million have been processed and approved during the past eighteen months. However, FIDEX must organize and implement its own marketing program to complement the transactions referred to it. A third analyst is in process of being selected and hired. This should free-up some of Rafael Alvarez' and David Huezos' time to promote new business.

FIDEX's marketing is a rifle rather than a shotgun approach. When fully implemented, they see their efforts concentrated at specific industries or firms rather than a broad attack. Personal contact is the primary tool applied, which can be effective since the Salvadoran market is small and fairly concentrated. Management has a list of firms to be approached in mind, and indeed have held a number of discussions, mostly involving the 0287 Industrial facility. Seven FIDEX developed industrial projects and three agriculture projects are in process of being prepared by the borrowers and are being referred to PRIDEX or DIVAGRO for technical sign off. FIDEX will eventually succeed in completing projects which it has generated, but will probably continued to need referrals from its sister divisions as the primary source of business as stated above.

Portfolio strategy which involves the customer profile, as expressed by management, is to develop a balance of credit exposure based on the apparent risk of the transactions financed. Management plans to eventually achieve a mix of approximately 30% of portfolio in loans to larger, apparently lower-risk companies, 40% to 50% to the medium-sized category, and 20% to 30% in loans to smaller borrowers (keeping in mind the minimum \$50,000 transaction as being the measure of "small"). Management will try to establish a diversified mix between various agricultural products, industrial, agro-industrial, and aquaculture loans.

4. Inter-divisional Coordination

Interaction between the three divisions takes places informally for the most part. There is no scheduled formal agenda for planning meetings between the head of each.

Contact is on a daily basis, but these inter-divisional meetings, which occur both between heads and their staffs at all levels, are specific problem-solving meetings, and do not

constitute planning sessions in the broader sense.

When questioned, the manager of FIDEX felt that a bi-weekly meeting between himself and his counterparts in PRIDEX and DIVAGRO to discuss work in process and other planning matters would be useful.

With regard to specific transactions, there seems to be a reluctance on the part of both PRIDEX and DIVAGRO to involve FIDEX early in the project development stage since it may convey an overly optimistic impression to the borrower; they want to have the technical and marketing aspects of the project close to the approval stage prior to involving FIDEX. Similarly, FIDEX is reluctant to become involved in conversations with potential customers early on as technical and marketing considerations are paramount, and as above, they want no impression transmitted to the client that a financing commitment is being implied. Yet the Chairman of FIDEX's Credit Committee feels that project lead-time could be cut down if a) FIDEX could establish general financial guidelines for the customer prior to, or during, the preparation of the feasibility study, and b) eliminate those prospects who do not fulfill FIDEX credit background requirements, as individuals or as firms.

In one instance, London Fashion S.A. de C.V., a PRIDEX prospect, a meeting was held (7/13) with the client, his consultant, and representatives from both PRIDEX and FIDEX to discuss a feasibility study which has been reviewed. PRIDEX had technical matters to discuss, FIDEX outlined its financial requirements, and a letter was sent to the borrower on the same day outlining the refinements and changes which needed to be made. The inclusion of the FIDEX analyst in the discussions probably saved at least one future round of discussions. If it proceeds, this could result in a \$1 million loan for FIDEX.

AID Project 0327 sets aside \$4 million for aquaculture loans. FIDEX is required to approve a minimum of \$1 million per year. This specialty has received considerable attention in the past, and AID is funding a \$1 million DIVAGRO contract to hire a group of experts to be resident in El Salvador for three years.

El Porvenir, S.A., a shrimp project requesting \$760,000, has been approved subject to a final sign-off by technologists to be contracted; FIDEX is reluctant to rush in this area, which is yet to be proved viable in El Salvador. However, as AID grant funds are being utilized for both technical assistance and loans, both DIVAGRO and FIDEX are required to cooperate with AID to the fullest extent. Management and the Credit Committee have, however, indicated

that they intend to become involved at the minimum acceptable rate.

As this is a new area for FIDEX, collaboration with both DIVAGRO's and the contracted technical experts by FIDEX management and analysts during the project development stage might be helpful in overcoming skepticism which is natural when one is involved with the unproven. The more FIDEX officials understand of the economics and technology involved in shrimp production, the more likely they will be to approach this field with a positive attitude.

In summary, FUSADES is well known in El Salvador among large and medium-sized businesses and farms, as are the services which its divisions offer. The high quality of the Board and the various Committees which direct the divisions, and their broad range of contacts, insures a good chance of obtaining new business locally. In addition, FUSADES has carried out fairly extensive print advertising in the local press and in trade publications read by those interested in the region. The embassy and AID refer investment inquiries to FUSADES from US individuals or firms exploring the region, as do other organizations, such as LAAD.

Internal procedures within the three divisions are appropriate, and the quality of work which we examined was excellent. Improvements can be made in inter-divisional communication, and in streamlining application of procedures between the divisions.

D. LOAN APPROVAL PROCESS

FIDEX's Management has a commercial bank background and its credit committee is composed of businessmen who are accustomed to dealing with commercial banks. The project preparation and presentation process is governed by this experience. Project analysis has, nevertheless, become increasingly intensive and appears to be in line with commitments to AID.

Terms and conditions on the loans approved thus far seem reasonable and appropriate; borrowers interviewed, who all borrowed in dollars, seemed satisfied. This situation is probably the result of decreased liquidity in the country and increasing understanding of AID's criteria.

Loans are approved by FIDEX 7-member Credit Committee (five regular, two substitutes) on the basis of comprehensive project analysis amply set forth in written presentation. The latter document deals with financial and technical feasibility with special attention to market factors.

management experience and capability as well as a potential borrower's commercial history. Security on loans is analyzed in the presentation to the Credit Committee.

These documents address themselves to criteria set forth by AID, but criteria respecting commercial viability are substantially easier to deal with in the case of on-going, and even new, manufacturing projects than in the case of almost any Agribusiness undertaking.

The prospective project, after technical and marketing analysis and approval from FRIDEX or DIVAGRO, will complete the FIDEX loan approval application. This, along with the feasibility study and FRIDEX/DIVAGRO analysis will:

- a) first be reviewed by the Director for conformance to FIDEX and AID policies, and general viability.
- b) It is then passed to the Credit Manager who assigns the financial analysis task to one of two Account Executives who will begin checking references and the preparation of the formal financial analysis. Three weeks is allocated to this process, which may include reversion of the customer, his consultant, or the referring sister division on matters of detail.
- c) Negotiation with the client regarding the amount and terms of the financing will be begun at this stage, in association with the Credit Manager. The level of equity versus debt, and the ability of the project to service debt, after sensitivity analysis of key variables, are studied carefully by the analyst and the Credit Manager.
- d) If the deal is to proceed, the analyst then prepares a final draft of the project and analysis which must be internally approved by the Credit Manager and Director. This would include the terms and conditions initially agreed upon, and consumes approximately one week. The Director prepares his cover synopsis for the Credit Committee.
- e) The project is then scheduled for review by the Credit Committee who may approve or reject the loan out of hand, or may require further negotiations with the borrower, in which case the project will be again scheduled for the Credit Committee agenda. Final approval by the Credit Committee (and USAID if the loan is for an amount over \$500,000) is followed by FIDEX's issuance of an offering letter with all terms and conditions included which must then be accepted by the borrower. We were informed that forty-five days is

- allowed for the negotiation, approval and offer-letter stage.
- f) The FIDEX Operations Manager then causes the attorneys for the dollar or local currency trustee (or both) to prepare and negotiate a loan agreement with the borrower, in which FIDEX participates. This has been a time consuming process, as it is at this stage that the need for waivers for equipment procurement will surface, and requirements for collateral and the legal documentation to secure it become real to the borrower for the first time.
- g) Signature of the loan agreement is followed by the legalization and registration of the agreement, collateral documentation, obtaining of waivers, ancillary agreements as specified, and finally, by the foreign exchange registration with the Central Bank if a dollar loan. These latter steps can be the most time consuming, taking several months as in the case of Specialty Products, the first dollar loan under 0287.

(See Appendix for full list of FIDEX steps involved in the Specialty Products case).

FUSADES policy requires that if a FUSADES director, committee member, officer, or a member of their law or public accounting firm, has any ownership, or is a director of the firm requesting credit, or has parents, children, or in-laws involved in the ownership of the company, the relationship must be disclosed, and the project credit referred to a Conflict of Interest Committee of the FUSADES Board of Directors for disposition. Of the seven dollar loans approved by FIDEX, two have involved conflict of interest situations (See Annex 5). USAID project managers will review the FUSADES policies with counsel to re-affirm the conflict of interest policy and its conformity with changes in AID policies.

So what happened?

E. LOAN DISBURSEMENT PROCESS

Disbursement has been made to only one client so far, Specialty Products, S. A. de C.V. In this case, the loan is divided into two tranches \$404,000 for purchase of machinery, with a maturity of five years, and \$380,000 for working capital, with a 4-year maturity. A full set of documentation of this loan is in an Appendix to this report, including the borrowers' application, the written presentation to FIDEX's credit committee, the Credit Committee approval, request for AID approval, the AID approval letter and documentation relating to opening of letters of credit, as well as requests

and approvals for waivers form AID relating to procurement. Other material related to FIDEX documentation is presented in the Appendix.

Still to be executed is documentation of a retention agreement which will provide for offshore payment of this dollar loan. This agreement, which will require the approval of all participants (the borrower, FIDEX, Citibank, the borrower's foreign clients, and the Central Reserve Bank of El Salvador).

The retention agreement will consist of a letter signed by Specialty Products and approved by both FIDEX and the Central Reserve Bank. It will be addressed to Specialty Products' importer clients, instructing each (or several) of these to segregate a specified percentage of each payment for product delivered and transmit these funds to a special FIDEX account at the Citibank. On the dates specified in the loan agreement between FIDEX and its borrower, payments due on principal and interest will be withdrawn from this special account and paid to FIDEX. In the meantime, interest accrued on this special account is in favor of the borrower.

The balance of each payment by the importers is made in the normal, previously agreed, manner to the borrower.

These latter dollars (those not destined to FIDEX's account for repayment of the loan) enter El Salvador and are, in effect, applied to the account of the Central Reserve Bank, which, in turn, issues a corresponding amount of colones (at a favorable rate) to Specialty Products.

The borrower and the Central Bank have agreed, in principal, to this retention procedure. It has been used by other dollar lenders in El Salvador for several years.

To comply with Salvadoran law, and in compliance with procedures set forth by AID, dollar disbursements to borrowers are made through Cititrust, Bahamas, a subsidiary of the Citibank. Cititrust functions as an offshore department of FIDEX under a trust agreement. AID advances funds to FIDEX's account at Cititrust, Bahamas based on 90-day estimates of requirements of approved loans. When dollars are to be utilized for the importation of equipment, Citibank, El Salvador, will open a sight letter of credit in favor of the US or other supplier (when permitted by waiver). The transaction takes place as follows; upon receipt of instructions coordinated between FIDEX, Citibank/El Salvador, and the borrower, Cititrust will transfer dollars to the account of Citibank/El Salvador at Citibank, Miami. This serves as cash collateral for the letter of credit, which will then be opened in favor of the supplier. The FIDEX loan

is activated at this point, and interest starts to accrue on the loan. Yet it may be several months before the equipment is delivered, and the letter of credit drawn upon.

Actual dollar disbursement to clients will be made through the opening of letters of credit in favor of suppliers of goods financed by FIDEX.

Local currency (colon) disbursements are made through the Banco Hipotecario (a major Salvadoran commercial bank). Advances are made by AID to the Cititrust Bahamas based on 60-day requirement estimates made by FIDEX and then passed on to borrowers in colones through the Banco Hipotecario upon receipt of equivalent dollar check (drawn on Cititrust) from FUSADES. Disbursements to borrowers are made against presentation of evidence to FIDEX of actual expenditures. Colon disbursement is, in fact, reimbursement to clients.

F. LOAN MONITORING

Following loan disbursement, the responsibility for monitoring a loan on FIDEX books is in the hands of the FIDEX analyst, or account executive by this time, who was involved with the original approval. However, he is assisted operationally by the Operations Manager of FIDEX who is responsible for receiving receipts of payments made on the loan from FIDEX's agent banks. Under agreements, FIDEX works with Cititrust, Bahamas, in connection with the disbursement and receipt of dollar funds applied under 0287 and 0327; FIDEX works with the Banco Hipotecario on local currency disbursements and repayments under 0303 and 0327. If a payment is missed, the Operations Manager notifies the account executive, as well as the Financial Control section of FUSADES.

The two FIDEX account executives/analysts, soon to be three, have been assigned 11 and 10 accounts respectively, the 21 loans that have been drawn against at this time.

Management has assigned analyst/account executives a travel schedule to the field which permits coverage of each borrower at least once every two months. The account executive completes a brief report upon his return which covers the status of the project, and apparent compliance with loan covenants to the extent that they can be observed or verified with the customer. This program has faltered from the original plan to have each analyst in the field two days per week. This is due to the press of work in the office, new personnel, and a shortage of jeep type vehicles. Management states that the vehicle shortage will be rectified, and the addition of a third analyst will permit

the desired coverage, notwithstanding the increased analytical workload.

In addition, PRIDEX and DIVAGRO are responsible under their technical assistance contracts to provide continuing monitoring of projects and technical assistance as required. If the customer encounters technical or marketing problems, the respective division is responsible for helping out. We have found during this evaluation that DIVAGRO, additionally, will work toward a solution to more global problems which affect an entire sector. The instance which we encountered involves a 20% increase in freight charges required by the channels which were used to transport the previous melon crop. DIVAGRO immediately opened discussions with new transporters on behalf of all the melon growers, since the increased cost of freight would wipe out the profits of the local growers, several of whom are financed by FIDEX under the Water Management facility. Market assistance, and technical and quality control assistance provided by DIVAGRO and PRIDEX including site visits, combined with a formalized follow-up visiting program by FIDEX, gives as complete assurance as is practical and convenient that projects will be completed, well operated, and their financing will be repaid. Monitoring of the shrimp projects will, according to our information, be carried yet one step further in that the contracted technical experts will be virtually resident and taking an active role in the operation of the projects. This is well advised during the initial years.

G. USE OF REFLOWS

Payment of principal and interest have been made only under the Water Management Project. The total received thus far is about 1.3 million colones in principal and interest payments. These funds are invested in 6-month 15% time deposits with the Salvadoran commercial banking system.

II. CONCLUSIONS

FIDEX is capable of achieving AID's objectives with its present management and staff (which will be increased in August). There are numerous obstacles to its doing so, however.

The institution's Credit Committee, management and staff have considerable experience with business and commercial banking. Their experience and knowledge of development banking is limited, however, and there is, and will be for some time, a tendency to apply previous experience to the

operation of FIDEX. The challenge is so great and the conditions so uniquely specialized in El Salvador that the experience of implementing FIDEX may be the best possible route to obtaining the appropriate training.

It will be difficult, however, to keep good management and sustain the interest of Credit Committee members. Managing FIDEX can be a very discouraging job, and it may be difficult to define goals very clearly.

It is difficult for an outsider to interpret FIDEX, and it may be equally difficult for them to interpret themselves. The company has no owners and pays nothing for its resources. No one benefits from profitability and no one suffers from losses. A normal private lending institution lives on the spread between the cost of money and the interest rate charged to its customers. It is motivated to minimize costs of operations and maximize the cost it charges for loans. Such an institution is keenly alert to its market seeking to obtain the highest possible return from well assessed and collateralized loans. A private development corporation is expected to lend to projects which are risky and sometimes unable to provide adequate collateral. Its motivations are somewhat contradictory, but it is normally profit-motivated. This, in fact, is the principal challenge of development banking: learning how to take risks profitably. Management is rewarded for doing this. Owners are punished financially if management cannot respond to this challenge.

It would be premature to change the structure at the present time. However, FIDEX (and FUSADES) must consider and plan for the future.. AID assistance in its present form cannot continue forever; at some point, FIDEX will have to be in a position to seek funds from other international organizations and from the local market. This will require that a) FIDEX become a licensed financial institution, and b) a new relationship with FUSADES and its other component be worked out, and that c) FIDEX diversify and enlarge its product line, retaining the development banking function as one among several. This would enable FIDEX to compete in the marketplace, and diversify both its portfolio and income stream.

Under any structure, FIDEX will face an enormous challenge. El Salvador is one of the most difficult countries in the Western Hemisphere in which to operate a development bank. It could be the most difficult country in which to develop a non-traditional agribusiness portfolio. Under the best of circumstances, with absolute political and economic stability, El Salvador does not offer a broad variety of agricultural opportunities. During this period of instability, there are fewer opportunities. The threat of

death and destruction of property are a few among many factors which motivate Salvadorans to invest in industry rather than agriculture. The City of San Salvador seems to be viewed as a fortress by many businessmen.

The hostile investment climate of El Salvador is not conducive to rapid growth. The eventual identity of FIDEX will be largely determined by the market, which, at present, is motivated to invest in industry in preference to agriculture, in the less hostile confines of the country's capital city. It is reasonable to expect the agribusiness line to move more slowly than the industrial line.

The institution will probably have to continue its present practice of maintaining a balanced agroindustry portfolio, financing strong borrowers whose projects can make an immediate impact, and more pioneering type undertakings which will take some time to implement.

All of the FIDEX clients interviewed expressed the view that the route to commercial success and, ultimately, economic development lies in effective use of Salvador's large labor force. All felt that Salvador's greatest asset in the world market was a potential for efficiency. This potential is already being achieved by some FIDEX clients, beyond any projection that could have reasonably been made.

FIDEX is just beginning operations. It has needed some pressure from USAID. Once it sustains the shock of start-up, it will probably settle into a routine of project development and implementation, and will find its identity. There are several successful private development corporations operating in Central America. They all suffered initial growing pains.

Each of the three FUSADES divisions involved in the promotion and financing of non-traditional export projects, PRIDEX, DIVAGRO, and FIDEX are capably staffed, produce high quality work by international standards, and, individually, have adequate internal policies and procedures to govern and control the performance of the tasks to which each is assigned. The team concentrated on FIDEX pursuant to the scope of work; however, a number of conversations were held with the sister divisions, and a sufficient amount of information obtained to permit an analysis of their promotion and development processes which directly impact the volume of transactions available to FIDEX.

As PRIDEX and DIVAGRO are promotionally and technically oriented, while FIDEX, as financier, is obligated to maintain a high degree of objectivity, there is a well understood degree of compartmentalization between promotion and financing. However, pursuant to comments discussed in

several of the interviews, communications between the divisions can be improved, and it may be possible to involve FIDEX in the project development process at an earlier stage which would speed up the process, and increase the capacity of the divisions, collectively, to generate and handle additional volume.

III. RECOMMENDATIONS

The evaluation team recommends that FIDEX take the following actions:

Establish a formal bi-weekly meeting between the Heads of FRIDEX, DIVAGRO and FIDEX to discuss potential projects in process or under review, including those which have just been received. A twice monthly meeting can be utilized to inform and update marketing plans so that the approach to the market can be improved institutionally.

Involve FIDEX management or analysts in selected project development as early as practicable, particularly in those cases where FRIDEX or DIVAGRO feasibility studies are being prepared in house, or at the time of the first review after receipt of the study from the consultant. This should reduce the total time necessary to finalize a project commitment within FUSADES. The selection of projects can be made at the inter-divisional meetings recommended above.

FIDEX will formally define an independent marketing strategy based upon the knowledge and contacts of its management in the Salvadoran industrial and agricultural communities. It will implement this strategy by expanding its list of target firms on a continuous basis, calling upon and, subsequently, reporting the results of the solicitation.

The reports or statistics reflecting the marketing effort can be internal status reports, but a copy should be sent to AID monthly.

Plans to hire a third analyst and administrative assistant should be implemented as soon as the appropriate individuals are identified.

The short term facility approved for the funds to be re-lent to growers under the Productos Alimenticios sesame project should be restructured on a three-year revolving credit basis.

To enable the prompt contracting of heavy construction equipment needed to build the El Porvenir shrimp project, we strongly recommend the immediate assignment, on a short-term

basis, of the consultants selected to provide technical assistance in this field, to review the project. Their approval will fulfill the requirements of the Credit Committee.

FIDEX include a brief statistical summary of loan monitoring visits as part of its loan reporting requirements to USAID, with a status update on those cases which involve past-due loans.

FRE and RDO project officers along with counsel should review and approve or amend FIDEX conflict of interest policies and procedures.

USAID should set up a further independent review of FIDEX for late May or June, 1990, by which time there should have been sufficient lending and disbursement, and some collection activity under Projects 0287 and 0327 to provide evaluators with more material on which to judge FIDEX performance and adherence to procedures. The El Salvador economy, and policies of the new government, will be more clearly defined, and an evaluation team would be in a better position to assist thinking regarding the future direction of FIDEX.

A N N E X 1

FIDEX STAFF

FIDEX staff is presently composed of five professionals. A sixth professional will come with FIDEX in August.

Rafael Alvarez, the Director, has had experience in private commercial banking and was manager of one of Salvador's principal coffee exporters. He also served for two years as Vice President of the Banco Central de Reserva before joining FUSADES in 1985. Mr. Alvarez graduated from the University of San Francisco, where he studied business administration.

Mr. David Huezo is Chief of Operations and, in some respects, serves as Mr. Alvarez' deputy. Mr. Huezo was with both the First National Bank of Chicago and the First National City Bank before coming with the Office of Private Sector Development at AID, El Salvador. Mr. Huezo graduated from the University of Notre Dame.

Messrs. Miguel Galdámez and Julio Hernández are Ejecutivos de Cuentas actually performing the function of loan officers. Galdámez and Hernández, with the direction and participation of Mr. Huezo, analyze and prepare projects, supervise their implementation and monitor their commercial progress and compliance with developmental objectives. The latter is more the function of Mr. Alvarez and Mr. Huezo, however.

Both Messrs. Galdámez and Hernández have had considerable experience with Salvador's nationalized banking system. Both men were graduated from the Instituto Tecnológico de Monterrey, as Ingenieros Agrónomos.

Mr. Jorge Monterroso handles all FIDEX's administration and is responsible for preparation and implementation of documentation, both legal and financial, as well as the registration of dollar loans with the Central Reserve Bank and the registration of collateral.

FIDEX will employ a third "Ejecutivo de Cuentas" in August. He will have training and experience in the analysis of industrial credits.

Staff responsibilities tend, especially in a small institution, to be governed by individual interests and capabilities. In the case of FIDEX, its administrative officer is so experienced and so inclined to deal with detail (and quite efficiently so) that he is able to relieve operational personnel from these responsibilities permitting them to devote full

attention to project development and preparation. Messrs. Alvarez and Huezco follow the progress of project implementation, but this is really Mr. Monterroso's territory.

Only one dollar-denominated FIDEX loan has run the full gamut from project identification to disbursement, the documentation is quite complete. While the Water Management Project is not a subject of this evaluation, we were able to determine that the loans under this line are well documented, and the flow of funds is followed (including monitoring of interest and principal payments under these loans), and well understood. Mr. Monterroso is responsible for administration of the Water Management Project.

A N N E X 2

Miembros Comité de Crédito

1. Dr. Mario Luis Velasco (Chairman)
Posición: Director FUSADES
Antecedentes: Ex-Presidente Financiera Nacional de la
Vivienda
Ex-Presidente Ahorromet
Teléfono: 23-6782
2. Dr. Gianneto Paggi
Posición: Presidente Corporación Industrial
Centroamericana, S. A. (CORINCA, S.A.)
Antecedentes: Representante Lever Bros.
Director UNISOLA, S. A.
Teléfono: 23-0660
3. Lic. Román Quiros Céspedes
Posición: Representante para Centro América de
Cargill Commodities
Antecedentes: Cargill and Associates
Grupo Industrial Dainninger
Teléfono: 23-0959
4. Lic. Enrique Suárez Mantilla
Posición: Director Ejecutivo Baterías de El
Salvador, S. A.
Antecedentes: CITIBANK, NA
FUSADES
5. Ing. Manuel Mauricio Martínez
Posición: Gerente Técnico Baver de El Salvador,
S.A.
Antecedentes: Baver de El Salvador, S.A.
Telefono: 78-2000
Nuevos
6. Sr. Archie Baldochie
7. Sr. Carlos Patricio Escobar

ANNEX 3

<u>Borrower</u>	Foreign Exchange Generated in		
	<u>US\$ Millions[1]</u>	<u>Employees[1]</u>	
	<u>Average Annual</u>	<u>Direct</u>	<u>Indirect</u>
<u>0287</u>			
SPECIALTY PRODUCTS, S.A. de C.V.	US\$ 3.96	136	X
MAQUILAS SALVADORENAS, S.A. de C.V.	1.3	446	X
INDUSTRIAL FLORENZI, S.A. de C.V.	4.7	380	X
ACERO, S. A.	0.9	2	X
HILANDERIAS DE EXPORTACION, S. A.	<u>4.8</u>	<u>118</u>	X
	US\$ 15.66	1,082	
<u>0327</u>			
EL PORVENIR	US\$ 0.7	25	X
PRODUCTOS ALIMENTICIOS, S.A. de C.V.	<u>7.5</u>	<u>65</u>	<u>8-10,000[2]</u>
	US\$ 8.2	90	8-10,000

1/ Benefits are estimated for first typical year of production.

2/ Farmers benefitted through raw material producers.

25

ANNEX 4

<u>BORROWER</u>	<u>CREDIT COMMITTEE APPROVAL</u>	<u>PURPOSE</u>	<u>AMOUNT</u>	<u>TERM</u>	<u>GRACE PERIOD</u>	<u>INTEREST(1)</u>	<u>SECURITY</u>
1. SPECIALTY PRODUCTS, S.A. de C.V. Quality shopping bags	04/06/89	Expansion	US\$ 404,000 380,000	5 4	1 1	10% 10%	Equipment Fianza
2. MAQUILAS SALVADORENAS, S.A. de C.V. Clothing manufacture	05/05/89	New	US\$ 269,667 135,438	8 4	1.5 1	10% 10%	Equipment Fianza
3. INDUSTRIA FLORENZI, S.A. de C.V. Clothing manufacture	05/09/89	Expansion	US\$ 875,246	5	1	10%	Equipment Fianza
4. ACERO, S. A. Nail production	05/24/89	Expansion (new)	US\$ 90,000	3	0	US Prime + 1% (2)	Equipment
5. HILANDERIAS DE EXPORTACION, S.A. Synthetic and cotton thread	05/05/89	New	US\$2,500,000	10	2	10%	Equipment Personal Guarantees
6. EL PORVENIR Shrimp aquaculture	07/06/89	New	US\$ 654,423 (3) 136,774	10 5	1.5 1	US Prime +1% 15%	Equipment
7. PRODUCTOS ALIMENTICIOS, S.A. de C.V. Sesame decorticating	07/06/89	Expansion	C 8,860,000 US\$ 113,600 US\$2,400,000	10 10 mos.	3 3 mos.	15% US Prime +1%	Equipment

1/ Adjustable

2/ CITIBANK Prime

3/ A portion may be denominated in colones

FUNDACION SALVADOREÑA
PARA EL DESARROLLO ECONOMICO Y SOCIAL



FIDEX-RAZ215-89-dr

ESPACHADO
2:05 PM
ML

Para : Lic. Eduardo Núñez I.
Director Ejecutivo

De : Rafael Alvarez Z.
Director Programa FIDEX

Asunto : Conflicto de Intereses
MAQUILAS SALVADOREÑAS, S.A.
DE C.V.

Fecha : 12 de mayo de 1989.

De acuerdo a la Política de Conflicto de Intereses de la Fundación, y para ser presentado a la respectiva Comisión, adjunto encontrará las condiciones bajo las cuales el Comité de Créditos en su sesión #48 de fecha 5 de mayo de 1989, aprobó el financiamiento por US\$405,105.00 a la empresa MAQUILAS SALVADOREÑAS, S.A. DE C.V.

No omito manifestar a usted que el señor Leonel Mejía G, tiene una participación accionaria de 10% en dicha Empresa.

Atentamente,

RAZ/ez

c:raz.215

FORMULARIO DE VERIFICACION
DE CASOS DE CONFLICTO DE INTERESES

[Handwritten Signature]
[Handwritten Initials]

PROGRAMA: "FIDEX"

Fecha de aprobación del Proyecto por la Comisión del Programa: Mayo 5, 1989

Descripción del Proyecto: El proyecto consiste en el establecimiento de una fábrica para ensamble de ropa casual femenina.

Con financiamiento para adquirir maquinaria y equipo e instalaciones eléctricas y para formación de capital para la operación de la fábrica.

Nombre del Solicitante o Compañía: MAQUILAS SALVADOREÑAS. S. A. DE C. V.

Cantidad Solicitada: US\$405,105.00

Existe Conflicto de Intereses? SI NO

Características del Conflicto: El señor Leonel Mejía G., es miembro de la Junta Directiva de FUSADES, del Comité Ejecutivo de la Fundación y Coordinador de la Comisión del Programa PROPEMI. Tiene una participación accionaria del 10% en la empresa solicitante.

Beneficios del Proyecto: El proyecto generará en el primer año de operaciones 247 empleos permanentes, en el segundo 32 empleos adicionales, en el tercero 117 empleos adicionales, en el cuarto 105 empleos adicionales y en el quinto 106 empleos adicionales para totalizar 657 empleos permanentes. Generando divisas en el orden de US\$1,249,951.00 en promedio por año durante el período evaluado (5 años).

RESOLUCION: APROBADO DENEGADO CASO No. _____

Fecha de revisión por la Comisión de Conflicto de Intereses: _____ ACTA No. _____

Cantidad Aprobada: _____

Observaciones de la Comisión de Conflicto de Intereses: _____

FIRMA DE AUTORIZACION

INFORMACION PARA PRESENTACION

DATOS GENERALES

DETALLE DEL CONFLICTO

RESOLUCION DE LA COMISION

I ASPECTOS GENERALES

1. Solicitante: MAQUILAS SALVADORENAS, S. A. DE C. V.
2. Dirección : 2ª Calle Oriente y 2ª Av. Sur, Edificio Goldtree Liebes.
3. Capital Social : Suscrito: ₡25,000.00
Pagado : ₡25,000.00
4. Capital Mínimo : ₡25,000.00
5. Accionistas y Participación:

Dr. Francisco Roberto Lima	50 acciones	₡ 5,000.00	20%
LIEBES, S. A. DE C. V.	200 acciones	20,000.00	80%
TOTAL	250 acciones	₡25,000.00	100%

NOTA: Se aumentará el capital social a ₡750,000.00 con futuros accionistas, así:

ACCIONISTA (*)	APORTE TOTAL	PARTIC. %	EFFECTUADO ABRIL	MAYO	JUNIO
MERIUT, INC.	90,000.00	12.00	42,000.00	24,000.00	24,000.00
ALTERIUS, INC.	90,000.00	12.00	42,000.00	24,000.00	24,000.00
MAGDALENA G. DE LIMA	55,000.00	7.33	25,680.00	14,660.00	14,660.00
DR. FRANCISCO R. LIMA	20,000.00	2.67	9,320.00	5,340.00	5,340.00
INV. ROBELY, S.A. DE C.V.	90,000.00	12.00	42,000.00	24,000.00	24,000.00
INV. SULAMITH, S.A. DE C.V.	90,000.00	12.00	42,000.00	24,000.00	24,000.00
GUDRIEL, S.A. DE C.V.	90,000.00	12.00	42,000.00	24,000.00	24,000.00
NORIAM, S.A. DE C.V.	90,000.00	12.00	42,000.00	24,000.00	20,000.00
LEONEL MEJIA C. ING. FERNANDO MARQUEZ	75,000.00	10.00	35,000.00	20,000.00	20,000.00
	60,000.00	8.00	28,000.00	16,000.00	16,000.00
	750,000.00	100.00%	350,000.00	200,000.00	200,000.00
	100%		46.70%	26.65%	26.65%

6. Representante Legal: Dr. Francisco Roberto Lima.

7. Fecha de constitución : Diciembre 8, 1988.
- Nº de inscripción : Inscrita al #10, folios 181 y siguientes, Libro 645. San Salvador.
8. Experiencia: Es una empresa en formación, en la que los accionistas actuales y futuros tienen experiencia ejecutiva y administrativa en empresas, que están actualmente funcionando en otras actividades.

II . EL PROYECTO

1. Descripción:

El proyecto consiste en la instalación de una fábrica maquiladora de ropa de vestir casual para damas con opciones para niños y caballeros, de acuerdo a los contratos a adquirir.

Esta actividad consiste en la prestación de servicios de ensamble en piezas ya cortadas y su posterior envío a clientes en los Estados Unidos, amparado en la iniciativa de la Cuenca del Caribe, que brinda preferencia a estos productos ensamblados en el extranjero, usando componentes producidos en los Estados Unidos conforme al ítem 807 TSUSA.

2. Ubicación:

Final Pasaje #4, Parque Industrial y Comercial Desarrollo, S. A., Soyapango.

3. Bienes a producir y Opciones de Producción:

3.1. Productos principales

Los productos principales que se ensamblarán en la fábrica en orden de importancia, serán:

- a) Ropa casual de vestir para mujeres (blusa, falda, pantalón, vestido).
- b) Ropa casual de vestir para niña, que pueda ubicarse sin tener mucho cambio la línea de producción.
- c) Ropa exterior para hombre, principalmente ropa deportiva, que no requiera mucho cambio en la línea de producción.

Comentario:

En los primeros 3-6 meses maquilarán a empresas nacionales ya establecidas, con el objeto de determinar su eficiencia y lograr estándares de calidad que les permita adquirir confianza y experiencia en el sector.

Por otra parte, hasta tener su maquinaria instalada podrán negociar contratos directamente con empresas de Estados Unidos.

3.2. Opciones de producción a las que podrá adaptarse la fábrica

Opciones viables de producción consideradas:

- a) Ensamblaje
- b) Ensamblaje más logística
- c) Corte, ensamblaje y avío
- d) Paquete de confección completa

4. El mercado

4.1. Productos

a) Productos a elaborar

La empresa ensamblará blusas, faldas, pantalones y vestidos para damas, o sea ropa casual, que es un SECTOR EN CRECIMIENTO en el mercado de los Estados Unidos, con alto contenido de mano de obra.

Esencialmente lo que la fábrica venderá es el minuto de confección, y para efectos del proyecto se ha tomado (¢0.40 c/u) un promedio básico de 20 minutos de confección por pieza.

- #### b) Principales empresas maquiladoras: INDUSTRIAS FLORENZI, INDUSTRIAS TEXTILEX CUSCATLAN, PIMAR-PICALAS, LOPEZ HERMANOS, ELECTRIC DESIGNS, COUNTY LINE EXPORTANCES, etc.

Por otra parte, el Lejano Oriente, que tradicionalmente ha acaparado cantidades importantes, actualmente se encuentra en una situación de cuotas restringidas y tarifas arancelarias, lo cual está ayudando notablemente a los países de la Cuenca del Caribe.

4.2. Acuerdo Multilateral que rige estas Exportaciones

El acuerdo que rige estas exportaciones es el CBI tarifa 807, que puede resumirse así:

807-A Tela fabricada y cortada en Estados Unidos, aunque el filamento provenga del exterior.

807 Tela que puede ser fabricada en el Lejano Oriente, pero ingresada legalmente a los Estados Unidos y cortada en piezas listas para confección.

Lo que se maquilaría en El Salvador sería bajo el 807, que tiene niveles de acceso garantizados.

4.3. Proyecciones de Producción y Ventas del Proyecto

EXPORTACIONES A ESTADOS UNIDOS

Clase de Producto: ROPA CASUAL

ANOS	VALOR VENTAS US\$	PRODUCCION PROYECTADA (Unidades)	CAMBIOS ANUALES	CAPACIDAD INSTALADA (Unidades)	% UTILIZ. CAP. INST.	# MAQ
1	467,024	291,890		697,050	42	150
2	893,618	558,511	91%	1,115,280	50	240 (2)
3	1,261,662	788,539	41%	1,553,510	51	330 (3)
4	1,629,704	1,018,565	29%	1,951,740	52	420
(1) 5	1,997,747	1,248,592	23%	2,369,970	53	510

(1) A partir del quinto año la producción y venta es constante.

(2) Las máquinas a adquirir en el segundo año pueden ser financiadas por FUSADES, como primera opción, y/o el sistema bancario, segunda opción.

(3) El incremento proyectado de máquinas en el tercero, cuarto y quinto año, se hará con reinversión de capital generado por los excedentes proyectados a percibir.

5. Uso de Mano de Obra

ANOS	DIRECTA	INDIRECTA	ADM. Y VTAS.	TOTAL	CAMBIOS ANUALES
1	209	29	9	247	
2	279	41	9	329	33%
3	376	60	10	446	36%
4	468	73	10	551	24%
5	560	87	10	657	19%

6. Evaluación del Proyecto

	FACTOR DE DESCUENTO	
	13%	25%
TIR	33.8	33.8
VAN	4,366,278.00	1,249,588.00

TERMINOS DE APROBACION

FUENTE DE RECURSOS: International Development Fund Trust.

CREDITO I

Monto : US\$269,667.00

Destino: Financiar la adquisición de maquinaria y equipo, e instalaciones eléctricas para el establecimiento de fábrica para ensamble de ropa.

Tasa de

Interés: (A determinarse en base a resultado de negociaciones con la AID).

Plazo : 8 años, incluyendo un periodo de gracia de 18 meses para amortización de capital.

Forma de

Retiro : Retiros parciales supervisados por FIDEX, contra presentación de documentos comprobatorios de la inversión.

Forma

de Pago: Durante el periodo de gracia pagará intereses

trimestrales; a partir del vigésimo primer mes (21) de contratado el crédito, pagará cuotas trimestrales iguales a capital e intereses sobre saldos. Saldo de capital más intereses al vencimiento.

CREDITO II

Monto : US\$135,438.00

Destino: Formación de capital para la operación de fábrica de ensamble de ropa.

Tasa de

Interés: (A determinarse en base a resultado de negociación con la AID).

Plazo : 4 años, incluyendo un período de gracia de 1 año para amortización de capital.

Forma de

Retiro : Retiros parciales supervisados por FIDEX de acuerdo a sus necesidades.

Forma

de Pago: Durante el período de gracia pagará intereses trimestrales; a partir del décimo quinto mes (15) de contratado el crédito, pagará cuotas trimestrales iguales a capital e intereses sobre saldos. Saldo de capital más intereses al vencimiento.

Garantía para ambos créditos:

- a) Prenda sin desplazamiento sobre maquinaria y equipo a adquirir (US\$218,594.00).
- b) Fianza en colones, otorgada por una institución regida por LICOA y aceptable para la administración del programa; ajustable el valor de la fianza al tipo de cambio oficial, a manera de mantener durante la vida del préstamo el valor de US\$200,000.00
- c) Endoso de seguro sobre maquinaria y equipo a adquirir a favor de CITITRUST (BAHAMAS) LIMITED.

CONDICIONES ESPECIALES PARA LOS CREDITOS I Y II

- La relación deuda::patrimonio deberá mantenerse en 80% vs. 20% como máximo, debiendo aceptar el compromiso de no reducir dicho 20% sin la previa autorización de CITITRUST (BAHAMAS) LIMITED.

- El prestatario deberá aceptar el compromiso de:
- (1) Ceder un porcentaje de sus exportaciones para que sean retenidas en USA por el Banco Corresponsal de CITITRUST (BAHAMAS) LIMITED de acuerdo al mecanismo previamente aprobado por BANCO CENTRAL DE RESERVA DE EL SALVADOR.
 - (2) Asegurar contra todo riesgo, incluyendo actos de terrorismo, la maquinaria y el equipo endosando la póliza a favor de CITITRUST (BAHAMAS) LIMITED hasta por el monto que CITITRUST (BAHAMAS) LIMITED determine.
 - (3) Invertir en la reposición de las partes de la maquinaria y equipo financiados que se dañen durante la vigencia del presente crédito, a fin de mantenerlos debidamente operando y la asistencia técnica que CITITRUST (BAHAMAS) LIMITED considere necesaria, para el buen desarrollo del proyecto.
 - (4) Permitir auditoría del uso de fondos del proyecto financiado por una firma aceptada por CITITRUST (BAHAMAS) LIMITED o quien él designe.
 - (5) Permitir la intervención de CITITRUST (BAHAMAS) LIMITED a la administración de la empresa, y por cuenta de la misma, si se presentaran condiciones y circunstancias por las cuales CITITRUST (BAHAMAS) LIMITED considere necesario hacerlo, siendo éstas las siguientes: (5.1) Por incumplimiento de cualquiera de las condiciones del crédito o en el pago de las obligaciones a favor de CITITRUST (BAHAMAS) LIMITED (5.2) Deficiencias en la ejecución y administración del proyecto, según ha sido aprobado por CITITRUST (BAHAMAS) LIMITED (5.3) Por deterioro de la garantía y relación deuda:: patrimonio. (5.4) En caso que terceros entablaran juicio de embargo (interviniéndose inmediatamente a la empresa, desde la presentación de juicio hasta su finiquito).
 - (6) Utilizar los bienes y servicios financiados exclusivamente en la ejecución del proyecto. La ejecución del proyecto la deberá realizar con la debida diligencia, de acuerdo con eficientes normas financieras y técnicas. El prestatario deberá mantener los registros contables necesarios para la comprobación fehaciente de las inversiones a realizarse.
 - (7) CITITRUST (BAHAMAS) LIMITED se reserva el derecho de examinar los bienes, los lugares, trabajos y tecnología incluida en el proyecto y también las diversas operaciones, registros y documentos conexos, y el derecho de obtener toda la información pertinente que razonablemente se solicite al prestatario, en relación con lo anterior y especialmente sobre la situación económica-financiera del mismo.
 - (8) El deudor se compromete a presentar a CITITRUST (BAHAMAS)

LIMITED los Estados Financieros Auditados a más tardar 60 días después del cierre del ejercicio contable.

- (9) El reparto de utilidades, préstamos a socios o a terceros y cambios en la estructura accionaria del deudor y codeudores deberá tener la aprobación previa de CITITRUST (BAHAMAS) LIMITED.
- (10) Los desembolsos de fondos podrán ser suspendidos por CITITRUST (BAHAMAS) LIMITED, en caso que el prestatario no cumpla con los términos del contrato de préstamo y si no usare el equipo de acuerdo a lo convenido.
- (11) Si se requiere, contratar los servicios de asistencia técnica calificada y aprobada por CITITRUST (BAHAMAS) LIMITED, para la instalación de la maquinaria y equipo financiados, a efecto de garantizar el éxito del proyecto. Se deberá presentar a CITITRUST (BAHAMAS) LIMITED o quien él designe el informe del avance de la misma; a fin de justificar los desembolsos del crédito.
- (12) Cuando las utilidades, después del impuesto durante un ejercicio, excedan el 40% del patrimonio de la empresa, el 50% del excedente podrá servir para amortizar a las obligaciones con CITITRUST (BAHAMAS) LIMITED, adicional a la cuota correspondiente de ese año. La determinación de la cantidad hasta dicho 50% será fijada por CITITRUST (BAHAMAS) LIMITED siempre y cuando la liquidez de la empresa lo permita.
- (13) Si las pérdidas en un año de operaciones superan el 50% del capital social, deberán aumentar dicho capital social en la cuantía necesaria para mantener el porcentaje de pérdidas abajo de lo señalado.
- (14) El deudor no podrá hipotecar ni pignorar los bienes dados en garantía sin la autorización por escrito de CITITRUST (BAHAMAS) LIMITED o quien él designe.
- (15) Para poder formalizar este crédito deberá tenerse autorización por escrito de la Agencia Internacional para el Desarrollo (AID) para adquirir maquinaria y equipo de fuente y origen diferente a Estados Unidos de Norte América.
- (16) Aceptar el compromiso de que sus clientes en el exterior envíen informes mensuales a CITITRUST (BAHAMAS) LIMITED, de las operaciones efectivas que han realizado de MAQUILAS SALVADORENAS, S. A. DE C. V.
- (17) Previa contratación deberá presentar escritura de modificación por aumento de capital e incorporación de accionistas, otorgándosele un plazo de 90 días para inscribirla en el registro de Comercio de El Salvador. El

Capital Social mínimo deberá ser ₡750,000.00

En todas las referencias a CITITRUST (BAHAMAS) LIMITED se entiende que éste puede designar a una institución financiera en El Salvador, para que efectúe la administración/supervisión de los créditos en su nombre.

Al momento de formalizar el préstamo, deberá cancelar al representante de CITITRUST (BAHAMAS) LIMITED en El Salvador la cantidad de ₡5,063.82 (CINCO MIL SESENTA Y TRES 82/100 COLONES (*)), en concepto de formalización, legalización e inscripción de los documentos de préstamos.

Al momento del desembolso el cliente efectuará una donación equivalente al 1% del monto total del crédito otorgado.

El presente crédito deberá aceptarse y luego formalizarse en un plazo no mayor de 15 y 60 días respectivamente, a partir de la fecha de comunicación. Si no se formalizara en ese período se considerará como renunciada la aprobación.

(*) 0.25% del préstamo.

MFGR/arc
11 de mayo de 1989
a:MAQUILA.INT - WS

A N N E X 5 (Continued)
FORMULARIO DE VERIFICACION
DE CASOS DE CONFLICTO DE INTERESES

DATOS GENERALES

PROGRAMA: "FIDEX"

Fecha de aprobación del Proyecto por la Comisión del Programa: Julio 6, 1989

Descripción del Proyecto: El proyecto consiste en el establecimiento de una planta descortezadora de ajonjolí, el traslado de la maquinaria, adquisición de materia prima y gastos de operación para la industrialización del ajonjolí.

Nombre del Solicitante o Compañía: PRODUCTOS ALIMENTICIOS, S. A. DE C. V.

Cantidad Solicitada: Crédito I : US\$ 133,600.00 y ₡8,860.000.00
Crédito II: US\$2,400,000.00

Total : US\$2,533,600.00 y ₡8,860.000.00

Existe Conflicto de Intereses? [xxx] SI [] NO

DETALLE DEL CONFLICTO

Características del Conflicto: El Sr. Guillermo Alfaro Castillo es miembro de la Junta Directiva de FUSADES. Es el Gerente General de PRODUCTOS ALIMENTICIOS, S. A. DE C. V. y del Grupo de las Empresas DE SOLA.

Beneficios del Proyecto: El proyecto generará 65 empleos permanentes y 200 temporales cada año. Y en divisas, promedio anual. US\$7.5 millones. El proyecto también beneficiará aproximadamente a 10,000 productores (campesinos) de ajonjolí.

MFGR/arc

14 de julio de 1989

RESOLUCION: [] APROBADO [] DENEGADO CASO No. _____

Fecha de revisión por la Comisión de Conflicto de Intereses: _____ ACTA No. _____

Cantidad Aprobada: _____

Observaciones de la Comisión de Conflicto de Intereses: _____

This analysis is in process. The completed document will be similar to "Maquilas Salvadoreñas".

A N N E X 6

WORK IN PROCESS
(not including FIDEX approvals)

Originated by FRIDEX

Textiles

*	Hilcasa	under review by FIDEX	\$ 470,000
	London Fashions	2nd review feasibility	\$ 797,000

Light Industry

DELMED	preparing feasibility	\$ 400,000
Lab. Lainez	preparing feasibility	\$ 200,000
Angelitos	preparing feasibility	\$ 50,000

Originated by DIVAGRO

Duler-Reyes	review by consultants	\$ 900,000
Ag. Las Delicias	review feasibility study	\$ 300,000
Puerto Arturo	feasibility study	\$1,200,000
El Ausol	feasibility study	\$ 115,000
CAPE	feasibility study	\$ 110,000
Roberto Ulloa	feasibility study	\$ 110,000

Originated by FIDEX

0287

Angelitos	review by FRIDEX	see above
Ind. Plásticas	feasibility study	\$1,000,000
Lamiplast	initial contact	\$2,000,000
IUSA	initial contact	?
Maq. Inv. Robles	initial contact	?
AVX Ceramic	initial contact	?

0327

Molina	initial contact	\$ 400,000
Sartina	initial contact	\$1,000,000
Moore Comercial	initial contact	?

Total 0287 Pipeline	\$4,917,000
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Total 0327 Pipeline	\$4,135,000
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Total Reported Pipeline -- 7/89	\$9,052,000
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Approved and Pipeline -- 0287	\$9,571,000
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Approved and Pipeline -- 0327	\$9,231,000
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* Insider transaction

A N N E X 7

LIST OF PERSONS INTERVIEWED

Rafael Alvarez	Director	FIDEX
David Huezo	Manager, Credit	FIDEX
Jorge Monterroso	Manager, Operations	FIDEX
Miguel Galdámez	Account officer	FIDEX
Filadelfo Baires	Director	DIVAGRO
Mario Molina	Project Manager	DIVAGRO
Jorge Ramos	Mgr. Aquaculture	DIVAGRO
Augustín Martínez	Mgr. Fresh Products	DIVAGRO
Carlos Palacios	Director	PRIDEX
Santiago Zavaleta	Project Manager	PRIDEX
Jaime Alvarez	Mgr. Textiles	PRIDEX
Francisco Martínez	Textile Sec.	PRIDEX
José Ernesto Rodríguez	Mgr. Light Industries	PRIDEX
Mario Luis Velasco	Chairman Credit Comm.	FIDEX
Gianetto Faggi	Credit Committee	FIDEX
Ramón Quiróz Céspedes	Credit Committee	FIDEX
Dino Reves	Duler & Reves	Customer
Atilio Santín	El Porvenir	Customer
Ricardo Avila	Specialty Products	Customer
Ricardo Soundy	Maquilas Salvadoreñas	Customer
Alfredo Borgonovo	Acero, S.A.	Customer
Guillermo Alfaro	Productos Alimenticios	Customer
Frank Skowronski	Rural Development Off.	USAID
Bruce Michener	Rural Development Off.	USAID
Antonio González	Rural Development Off.	USAID
Mark Karns	Private Enterprise	USAID
Ana Albanez	Private Enterprise	USAID
Claudia Maza	Private Enterprise	USAID