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

ROCAP

PROJECT PAPER

EXPORT AGRIBUSINESS
DEVELOPMENT PROMOTION
(AMENDMENT NO. 2)

AID/LAC/P-594
CR-327/469

PROJECT NUMBER: 596-0123
LOAN NO. 596-W015A
596- 015B

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AGENCY FOR INTERNATIONAL DEVELOPMENT
PROJECT DATA SHEET

1. TRANSACTION CODE **C** A = Add
 C = Change
 D = Delete
 Amendment Number 2
 DOCUMENT CODE 3

2. COUNTRY/ENTITY
 ROCAP/LAAD

3. PROJECT NUMBER
596-0123

4. BUREAU/OFFICE
 Latin America and the Caribbean 05

5. PROJECT TITLE (maximum 40 characters)
Export Agribusiness Development Promotion

6. PROJECT ASSISTANCE COMPLETION DATE (PACD)
 MM DD YY
03 31 93

7. ESTIMATED DATE OF OBLIGATION
 (Under 'B:' below, enter 1, 2, 3, or 4)
 A. Initial FY 86 B. Quarter 4 C. Final FY 90

8. COSTS (\$000 OR EQUIVALENT \$1 =)

A. FUNDING SOURCE	FIRST FY			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant)	()	()	()	()	()	()
(Loan)	(6,600)	()	(6,600)	(20,751)	()	(20,751)
Other U.S.						
1.						
2.						
Host Country LAAD-CA						5,600
Other Donor(s)						
TOTALS	6,600		6,600	20,751		26,351

9. SCHEDULE OF AID FUNDING (\$000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) FN	118		150		16,000		4,751		20,751
(2)									
(3)									
(4)									
TOTALS					16,000		4,751		20,751

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)
 BR BL BF INT

11. SECONDARY PURPOSE CODE

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)
 A. Code B. Amount

13. PROJECT PURPOSE (maximum 480 characters)
 To expand non-traditional agricultural exports from Central America and Panama and increase levels of income in the economies of these countries.

14. SCHEDULED EVALUATIONS
 Interim MM YY MM YY Final MM YY
09 91 06 93

15. SOURCE/ORIGIN OF GOODS AND SERVICES
 000 941 Local Other (Specify) CA/P

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a page PP Amendment Supplement)
 Adds \$4.751 million and extends PACD by 24 months to support the resumption of LAAD's lending program in Nicaragua and Panama.

I certify that the methods of payment and audit plan are in compliance with the Payment Verification Policy. As described in the original PDS (Proj. Data Sheet) Garry Bjelleby, Controller 8/22/90

17. APPROVED BY
 Signature: Madine Hogan
 Title: Madine Hogan Regional Director
 Date Signed: MM DD YY

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION
 MM DD YY

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INSTRUCTIONS

The approved Project Data Sheet summarizes basic data on the project and must provide reliable data for entry into the Country Program Data Bank (CPDB). As a general rule blocks 1 thru 16 are to be completed by the originating office or bureau. It is the responsibility of the reviewing bureau to assume that whenever the original Project Data Sheet is revised, the Project Data Sheet conforms to the revision.

Block 1 - Enter the appropriate letter code in the box, if a change, indicate the Amendment Number.

Block 2 - Enter the name of the Country, Regional or other Entity.

Block 3 - Enter the Project Number assigned by the field mission or an AID/W bureau.

Block 4 - Enter the sponsoring Bureau/Office Symbol and Code. *(See Handbook 3, Appendix 5A, Table 1, Page 1 for guidance.)*

Block 5 - Enter the Project Title *(stay within brackets; limit to 40 characters).*

Block 6 - Enter the Estimated Project Assistance Completion Date. *(See AIDTO Circular A-24 dated 1/26/78, paragraph C, Page 2.)*

Block 7A. - Enter the FY for the first obligation of AID funds for the project.

Block 7B. - Enter the quarter of FY for the first AID funds obligation.

Block 7C. - Enter the FY for the last AID funds obligations.

Block 8 - Enter the amounts from the 'Summary Cost Estimates' and 'Financial Table' of the Project Data Sheet.

NOTE: The L/C column must show the estimated U.S. dollars to be used for the financing of local costs by AID on the lines corresponding to AID.

Block 9 - Enter the amounts and details from the Project Data Sheet section reflecting the estimated rate of use of AID funds.

Block 9A. - Use the Alpha Code. *(See Handbook 3, Appendix 5A, Table 2, Page 2 for guidance.)*

Blocks 9B., C1. & C2. - See Handbook 3, Appendix 5B for guidance. The total of columns 1 and 2 of F must equal the AID appropriated funds total of 8G.

Blocks 10 and 11 - See Handbook 3, Appendix 5B for guidance.

Block 12 - Enter the codes and amounts attributable to each concern for Life of Project. *(See Handbook 3, Appendix 5B, Attachment C for coding.)*

Block 13 - Enter the Project Purpose as it appears in the approved PID Facesheet, or as modified during the project development and reflected in the Project Data Sheet.

Block 14 - Enter the evaluation(s) scheduled in this section.

Block 15 - Enter the information related to the procurement taken from the appropriate section of the Project Data Sheet.

Block 16 - This block is to be used with requests for the amendment of a project.

Block 17 - This block is to be signed and dated by the Authorizing Official of the originating office. The Project Data Sheet will not be reviewed if this Data Sheet is not signed and dated. Do not initial.

Block 18 - This date is to be provided by the office or bureau responsible for the processing of the document covered by this Data Sheet.

PROJECT AUTHORIZATION
AMENDMENT No. 2

Name of Entity: Latin American Agribusiness Development Corporation, S.A.
Name of Project: Export Agribusiness Development and Promotion Project
Number of Project: 596-0123
Number of Loan: 596-W-015A / 596-W-015B

1. Pursuant to Sections 103 of the Foreign Assistance Act of 1961, as amended, the Export Agribusiness Development and Promotion Project was authorized on September 16, 1986. That authorization is hereby amended as follows:

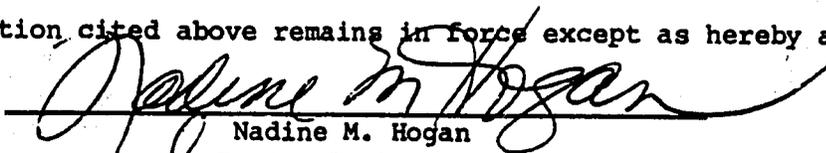
- a. Paragraph 1 of the Authorization is deleted in its entirety and the following substituted in lieu thereof:

Pursuant to Sections 103 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Export Agribusiness Development and Promotion Project with the Latin American Agribusiness Development Corporation, S.A. ("LAAD"), involving planned obligations not to exceed Twenty Million Seven Hundred and Fifty One Thousand United States Dollars (US\$20,751,000) in loan funds ("Loan") over seven year period from date of authorization subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local costs for the project. The planned life of project is seven (7) years from the date of initial obligation.

- b. Paragraph 3b of the Authorization is deleted in its entirety and the following substituted in lieu thereof:

b. Source and Origin of Commodities, Nationality of Services:
Commodities financed by A.I.D. under the \$4,751,000 provided under Amendment No. 2 shall have their source and origin in the United States, and the suppliers of commodities or services shall have the United States as their place of nationality, except for up to \$4,157,125 of Loan funds which may finance commodities or services of CACM source and origin and suppliers which have the CACM as their place of nationality, and except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the project shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States.

2. Funding from both the ARDN and PSEE accounts is authorized.
3. The authorization cited above remains in force except as hereby amended.


Nadine M. Hogan
Regional Director

September 13, 1990
Date

**EXPORT AGRIBUSINESS AND DEVELOPMENT PROMOTION
596-0123**

Project Paper Supplement: Amendment No. 2

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1. LAAD-CA's Success
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PROJECT PAPER SUPPLEMENT: AMENDMENT No. 2
EXPORT AGRIBUSINESS DEVELOPMENT AND PROMOTION
596-0123

Summary of Supplement

"The course of events in Panama and Nicaragua presents new opportunities for regional initiatives".⁽¹⁾ An opportunity ROCAP proposes to seize immediately is the resumption of LAAD's Export Agribusiness Development and Promotion Program in Nicaragua and Panama. Amendment No. 2 will obligate an additional \$4,751,000 in Loan funds to be used in Nicaragua (\$2,751,000) and Panama (\$2.0 million), and will extend the PACD by 24 months to March 31, 1993 to allow three years for the placement of these funds. The original Goal, Purpose, and operating mechanisms of the Project remain valid.

I. Background

A. Project Design

After 15 years of collaboration, in 1986 A.I.D. expressed its continuing confidence in the Latin American Agribusiness Development Corporation (LAAD) with a fourth Loan for agribusiness development in Central America and Panama. In 1989 this \$15 million Loan was increased by \$1 million, and its PACD extended by 18 months to March 31, 1991, to allow time for consideration of future A.I.D. support while maintaining the momentum of this highly successful⁽²⁾ project. Key areas of lending have been fruits and vegetables (both fresh and frozen/processed), beef processing, seafood cultivation and processing, cut flowers and ornamental plants, and wood products. Criteria for lending include: (i) at least 25% is new funding; (ii) new jobs are created, and there are linkages to smaller-scale producers and enterprises; and (iii) there is potential for expansion or replication. LAAD's lending has the following characteristics:

1. All loans are made and repaid in Dollars;
2. Loans are made to new enterprises, expansions, or firms (which may have had LAAD startup loans) that are diversifying into new areas of production or market;

(1) May 1990 DAA/LAC review of ROCAP Action Plan-STATE 169939
(2) This assertion is supported in Annex 1.

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3. Loan requests are processed rapidly (often within 30 days, compared to 3-6 months for other development finance entities);
4. Loan decisions are based on entrepreneurial skills and management ability of the borrower as much as on paper analyses of feasibility; and
5. Collateral requirements are realistic in terms of subproject capacity and generally lower than demanded by other sources of lending.

LAAD closely monitors its subborrowers, helping them with management problems, and restructuring loans when necessary.

At completion, the expected outputs are: (i) 3,600 new jobs in export agribusinesses; and (ii) new foreign exchange from export sales totalling approximately \$27 million. In addition, it is expected that indirect benefits will flow to small-scale producers and to communities and linked businesses.

Under the terms of the Project, LAAD/CA submits to A.I.D. for review any subloan in excess of \$500,000; utilizes reflows to further the purposes of the Project; seeks to maintain a level of equity of not less than \$6.0 million and a ratio of debt to equity reaching toward 3:1; maintains records of sales, employment and income of its subborrowers; and performs environmental impact determinations on subprojects. LAAD also agreed to comply with A.I.D. policies regarding financing of pesticides and citrus production or processing. LAAD also will make its best efforts to take equity positions in selected enterprises in order to improve its own financial base.

B. Performance and Status

LAAD/CA has performed fully in accordance with the purpose and terms of the Project. As of May 31, 1990, of the \$16 million total, \$15.4 million has been committed and \$15.2 million disbursed to 70 firms. Subprojects approved under the Loan have provided for the creation of more than the targeted 3,600 jobs and \$27.0 million in new foreign exchange earnings. Working directly and intensively with entrepreneurs, subloans have been made to firms in the categories identified above for new and expanded enterprises, including those exporting such new crops or products (for the region) as asparagus, Belgian endive, black pepper, new varieties of plants and flowers, cultivated shrimp, tilapia, and tropical fruit juices.

In March-April, 1989, a case study assessment of selected LAAD subprojects conducted by a Development Alternatives team looked at employment and income effects of new or expanded enterprises funded under this Project. The team studied six borrowers to ascertain the effects on workers and communities of the LAAD-supported enterprises. Among the many interesting findings in the report were that the subprojects provided benefits in terms of increased permanent and seasonal employment, income, advancement opportunities, and secondary benefits for the communities, particularly for those located in rural areas. Those subprojects that open new land for production of more intensively farmed crops tend to have the highest employment effects. Workers in these enterprises tend to be better treated in terms of training, benefits, promotion and general labor relations than they were in other farm work. Women find employment, often as packers or processors, but once they marry, often leave work to care for their families.

In a cross-cutting study of A.I.D.'s support for agribusiness development conducted by Experience, Inc. for the Bureau in 1988, both the ROCAP-supported Non-Traditional Agricultural Export Support (NTAES) Project, which provides key technical assistance in production and marketing, and the LAAD-CA Project were cited as among the most effective in the LAC portfolio.

II. Amendment No. 2

A. Content

ROCAP proposes to supplement the funds and extend the PACD of this Project. \$4,751,000 dollars of additional Loan funds will be obligated, and the PACD will be extended by 24 months to March 31, 1993. With this added time and money LAAD will resume its lending program in Nicaragua and Panama, thereby once again offering financing to all Central America. LAAD expects to be able to place the A.I.D. Loan funds and \$2.6 Million of added counterpart (of which \$2.0 Million will be placed in Panama and \$600,000 in Nicaragua), in perhaps 15-20 individual projects averaging about \$350,000 over the next three years. The business sectors likely to absorb these funds, and some specific prospects, are described in Annex 2.

B. Rationale

1. Regional Strategy

Even more than at the time of its design, the Export Agribusiness Development and Promotion Project is an integral part of A.I.D.'s strategic goal of increasing agriculture-based exports from the Central American region. It is now part of a network of

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agribusiness lending projects supported by the bilateral USAIDs (many were in design or startup phases in 1986) which respond to the LAC Bureau's CAI objectives and have helped provide the environment for the healthy demand for credit that LAAD is responding to. Nearly all of the bilateral projects operate through the formal banking system and finance companies, serving a different segment of the demand.

ROCAP's export promotion objective is supported by the work being carried out under the Non-Traditional Export Support Project (NTAES) (596-0108) offering technical assistance at all steps in the export production/marketing process; the Export Management Training Project (596-0124) at INCAE, which is developing needed talent and assessing policy reforms that lead to export growth; the agribusiness lending component of the Regional Economic Recovery Project (596-0114) at CABEI, which is now concluding; and the work of the Federation of Private Sector Entities of Central America and Panama (FEDEPRICAP) in the Private Sector Initiatives Project (596-0149) on resolving transportation obstacles and policy issues related to trade expansion.

2. Particular Significance at Nicaragua

The absence of Nicaragua from the specific projects mentioned above has in all cases lessened their potential impact on the region; and in some aspects has actually damaged intra-regional trade and communications. Nicaragua's reintegration into the Central American business community is a matter of highest regional priority on several counts: its local business community has long been one of the most dynamic in the area; Nicaragua's central location is of critical importance to its neighbors being able to trade with one another; and the development of the region as a free trade zone cannot occur without the participation of all Central America.

III. Project Analyses

The original Analyses conducted for this Project have been reviewed, and remain valid for this Supplement.

The Economic Analysis showed that, at an assumed 12% interest rate to subborrowers, the project would earn a real rate of return at least equal to the opportunity cost of capital in Central America. The Economic internal rate of return is slightly higher than the financial rate of return, and both are more than double the opportunity cost of capital. LAAD's average interest rate to its borrowers has been about 13%.

↑

The Institutional Analysis showed that LAAD had a small but highly productive staff which might require slight expansion in order to manage the larger portfolio. LAAD/CA's staff has three professionals, a secretary, and a program assistant. The basic functions of loan marketing, credit initiation and remedial management assistance are performed by this team, and in a highly effective manner.

The projected effects of the project as discussed in the Social Soundness Analysis have been borne out, as indicated by the recent case study assessment showing increased stable direct and indirect employment, increased incomes to farmers and suppliers, to area businesses, and to women who perform key functions in many of the enterprises.

IV. Financial Plan

A. Financial Summary

The Project will disburse the \$4,751,000 in additional A.I.D. funds through LAAD/CA as the intermediate credit institution, applying the same eligibility criteria and approval procedures, terms and conditions a provided for under the Project to date.

The summary project budget is shown in the table below:

(US\$ Millions)

	<u>A.I.D.</u>	<u>LAAD</u>	<u>Total</u>
Original Loan (FY 87-89)	15	3	18
Supplement No. 1 (FY 89-90)	1	0	1
Supplement No. 2 (FY 90-91)	4.7	2.6 ^{1/}	7.3
T O T A L	20.7	5.6	26.3

^{1/} \$2.0 Million matching funds for Panama and \$600,000 for Nicaragua

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B. Buy America Waiver

A major factor in LAAD's success has been its fast reaction time and its ability to shelter subborrowers from AID-imposed constraints inapplicable to business operations. LAAD's experience in on-lending \$16 million of AID funds has shown that agroindustrial projects have a high local-cost component: civil works for processing plants and working capital for large scale purchases of agricultural raw materials, or land preparation and irrigation and production inputs such as fertilizer and fuel. Of this \$16 million, only about \$2 million has gone for direct U.S. procurement. LAAD cannot commit itself to use the \$4,751,000 to be provided under this Amendment solely for the procurement of goods of U.S. source and origin, and an exception to this policy is required.

Under current guidance, exceptions to the Buy America policy limiting all procurement to AID Geographic Code 000 (USA) may be effected either through case-by-case waivers for each non-U.S. procurement; or through a one-time waiver included in the Project Authorization, with the value of and justification for the waiver clearly documented. Of the two formats offered, the case-by-case option would impose unacceptable delays and cost uncertainties on businessmen, and would diminish LAAD's effectiveness and the prospects of successful operations in Nicaragua and Panama; while the one-time, blanket approach suffers from the impossibility of identifying in advance the subborrowers, their procurements, and their preferred sources. Nevertheless, LAAD's intended lending programs in Nicaragua and Panama may each be characterized as a "Transaction" (STATE 276461, paragraph 2) and examined against the seven existing waiver criteria set forth in HB 1B Chapter 5B4c. Three of these criteria are applicable: for procurement of agricultural raw materials, "the commodity is not available from countries or areas included in the authorized geographic code"; for the financing of construction and civil works...", the lowest available delivered price from the United States is reasonably estimated to be 50 percent or more higher..."; and for LAAD's operational effectiveness and ability to achieve AID Purposes, "such other circumstances as are determined to be critical to the success of project objectives". In sum, existing criteria and current guidance allow a waiver of the Buy America policy.

Since the procurements to be financed and their source/origins cannot be precisely defined, a common sense approach to estimating the total dollar value of the waiver is to look at LAAD's experience. Of the \$16 million in AID funds sublent to date, about \$2 million (12.5%) financed direct U.S. procurement. In the absence of persuasive argument for any other figure, we estimate that local cost procurement will consume

approximately 87.5% of the proposed Amendment, which implies a waiver covering \$4,157,125. The Authorization Amendment No. 2 includes a waiver in this amount.

C. Independent Audit

Audit coverage will continue to be provided by Price-Waterhouse at LAAD's expense.

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To: Ron Curtis, RADO/ROCAP
Date: March 28, 1989
From: John H. Magill, DAI Team Leader
Subject: Conclusions Regarding Factors Contributing to LAAD-CA's Success

Although not a part of the scope of work of the LAAD-CA evaluation, we were asked to comment on the factors that we believed contributed to LAAD-CA's success as a development finance institution. While the following do not represent the conclusions of an in-depth evaluation of that particular subject, we did reach consensus on several factors that, in our opinion, are key to the success LAAD-CA has experienced.

1. LAAD-CA only finances individuals who have already made an entrepreneurial commitment to an enterprise. In almost all cases the entrepreneurs have already committed their own resources to the activity. This is in marked contrast to programs that support individuals who did not select the activity they are to be engaged in, and had not already made an emotional and financial commitment to the effort.
2. LAAD-CA bases its decision of whether or not to finance a project primarily on quality of management and entrepreneurial skills. As long as there are no obvious impediments to a project, these are the primary determinants of whether or not the enterprise will succeed. Almost all of LAAD-CA's borrowers have previous track records that can be examined to determine whether or not they possess sufficient managerial capabilities to carry out the project successfully. We should note that "quality of management" is also the single most important factor considered by commercial venture capital firms in deciding whether or not to invest in a business.
3. LAAD-CA's borrowers are, in fact, businessmen. They are used to taking risks, and know how to deal with risks on a business basis. They are not used to being "bailed out" if their investments fail.
4. The projects are large enough to have a chance to succeed. The scale of activities is large enough to be financially viable. Financing is realistic in the context of the overall project, and additional financing can be made available if the situation warrants it.
5. All of the projects that we studied either occupy a unique product or market niche, or control a key resource in the production-processing-marketing cycle, that enables them to control business risk. This can be a unique product, a significant cost advantage, a processing technology or a

marketing contact that provides them with a significant advantage in their field.

6. LAAD-CA controls risk through guarantees rather than paperwork; no feasibility studies, detailed plans or other paper exercises are required to justify the investment. As long as LAAD-CA is satisfied with the quality of management, as long as the borrowers have already committed their own resources to the project, and as long as the owners have sufficient real resources to ensure a capacity to repay (or cover) the loan, feasibility studies do not increase the likelihood of project success or reduce the risk of failure. At the same time, the absence of such bureaucratic requirements allows it to respond rapidly (within a time frame that meets local production needs) and operate at very low overhead levels.
7. While LAAD-CA is willing to reschedule problem loans, it is also willing to use legal mechanisms to foreclose. The borrowers are well aware of this, and do not treat it as an empty threat.

LAAD

DE CENTRO AMERICA. S. A

Guatemala, July 19, 1990
Ref. 00013R/90

Mrs. Nadine Hogan
Regional Director
ROCAP/AID
Guatemala City, Guatemala

Dear Mrs. Hogan:

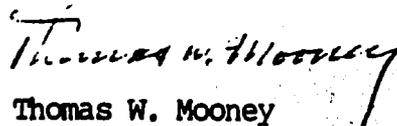
LAAD DE CENTRO AMERICA is herewith applying for a further amendment to provide for a \$5.0 million increase in the amount of the \$15.0 million loan from AID executed on September 30, 1986 and increased to \$16.0 million by an Amendment dated August 21, 1989.

We request that the terms and conditions of the September 30, 1986 loan apply to this second amendment, provided that the PACD will be extended by 30 months to September 30, 1993.

We further request that the countries eligible for financing from the proceeds of the amended loan be Nicaragua and Panama.

LAAD-CA's counterpart contribution to the amended program will be \$1.0 million to be applied in Nicaragua and Panama in amounts proportional to the amounts of the \$5.0 million AID contribution applied to these countries.

Yours truly,


Thomas W. Mooney

TWM/cg