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EVALUATION OF
LATIN AMERICAN AGRIBUSINESS
DEVELOPMENT CORPORATION

Final Report by

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Submitted to

Development Banks Division
Office of Development Resources
Bureau for Latin America
Agency for International Development
Washington, D.C. 20523

Submitted by

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July 31, 1974

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Evaluation of Latin American Agribusiness Development Corporation

July 31, 1974

46 pages

2 appendices

AID Contract Number: AID/CM/otr-C-73-199, W.O. #4

AID Project Number: 596-22-150-068

Source: ARC LAT 338.1 C789

The Latin American Agribusiness Development Corporation (LAAD) and LAAD de Centroamerica (LAAD-CA), its principal operating subsidiary, are functioning and are achieving a number, if not all, of the purposes for which they were designed. To date, LAAD loans and investments have been directed primarily to projects already conceived, launched and developed by investors in the region. It selected those projects which best met its criteria rather than acting as the promoting force for projects in areas pre-selected by LAAD. As a result, there is a considerable unevenness among the projects in terms of their impact on agribusiness development and the development of broad investor interest. It is early to measure the impact of LAAD operations in the region upon such things as employment, export earnings, agricultural practices, and small farmers but the evaluators do draw some tentative conclusions on these matters. LAAD's effort to develop a Central American capital market have been serious and sincere, but not yet of measurable importance. To some extent, LAAD operations have resulted in a number of commercial bank loans to assisted enterprises and this perhaps is its most important step in the capital market of Central America. The evaluators made 20 recommendations in the areas of loan policy, operational policy, capital market development, financial policy and additional financing.

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Washington, D. C. 20523

REF: Contract Number AID/CM/otr-C-73-199
Work Order Number 4

Dear Mr. Crisler:

We are pleased to present our final report of the evaluation of the Latin American Agribusiness Development Corporation, S. A. (LAAD) conducted during the past six weeks.

We wish to express our gratitude for the full cooperation of the President of LAAD, Mr. Robert L. Ross, and Vice President Thomas W. Mooney, whose assistance was invaluable in completing the work in the brief period provided. LAAD provided project analysis and internal planning papers, as well as planning a complex itinerary through the Central American countries and assuring that our interviewees were prepared to receive us. Mr. Pirie M. Gall provided valuable guidance in organizing the study and in editing the final report.

We emphasize our generally positive assessment of LAAD's operations to date. The Corporation has financed a number of ventures which otherwise would not have received support, and has been instrumental in strengthening many of them. We believe that the excellent management of the Corporation is capable of improving on this strong record. AID's interest is, of course, to assure that specific developmental goals are met, as well as examining the validity of certain of the goals themselves in relation to LAAD. We believe that LAAD can be both venturesome and viable at the same time, offering returns to shareholders while influencing the growth of agribusiness and the formation of capital in the sector. While we have found matters of policy and operations to criticize, our purpose has been constructive; to assure that LAAD improves on its record as both a business and a vehicle of development.

Mr. Richard C. Crisler, Jr.

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July 31, 1974

We will be pleased to discuss this report should AID require any clarification or expansion on our observations and recommendations.

Sincerely,


Jack C. Corbett
Vice President

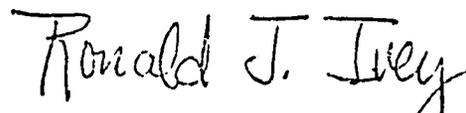

Ronald J. Ivey

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SUMMARY OF OBSERVATIONS AND RECOMMENDATIONS

A. Observations

A review of LAAD at its headquarters in Miami and its Central American offices in Guatemala City was followed up by visits to some 19 projects in the five Central American republics. LAAD investments and loans to these projects represent approximately 51 percent of all LAAD financing disbursed to date. This field review was invaluable in assessing the impact of LAAD projects upon the agricultural sectors of the various countries, the interrelationships and linkages of projects and the financial and economic soundness of LAAD operations in Central America.

The two basic purposes of LAAD were, first, to support and augment the capabilities of the private sector to enter into agribusiness activities in Central America on a systematized, interrelated basis with emphasis on non-traditional exports; and second, to contribute to the development of a capital market in Central America and to transfer ownership of LAAD's investments to local investors over a broad base.

LAAD and LAAD de Centroamerica (LAAD-CA), its principal operating subsidiary, are functioning and are achieving a number, if not all, of the purposes for which they were designed. The shortfalls of LAAD, when measured against its objectives, can be attributed to: (1) external events and influences over which it has no control; (2) the speed, in part, with which a large number of loans were made; and (3) the ambitious targets set for LAAD.

1. Evaluation of LAAD's Agribusiness Development Efforts

To date, LAAD loans and investments have been directed primarily to projects already conceived, launched and developed by investors in the region. It selected those projects which best met its criteria

rather than acting as the promoting force for projects in areas pre-selected by LAAD. As a result, there is a considerable unevenness among the projects in terms of their impact on agribusiness development and the development of broad investor interest.

In some cases, LAAD projects are in the correct area of development but are undersized or underfinanced. In other instances, the projects' relationships to the larger agribusiness picture is tenuous. In yet other cases, the projects are strong financially and conceptually but have no future as vehicles of broad investor interest.

The experience gained by LAAD in the utilization of the first AID loan will be invaluable in future operations. LAAD management fully appreciates the weaknesses and strengths of its loans and investments and even now its approach to new investments shows the impact of that experience. Two examples suffice. LAAD appreciates the importance of market planning and intelligence, especially in the United States, in designing Central American agribusiness investments. Therefore, LAAD is about to employ a stateside marketing specialist to actively assist Central American exporters financed by LAAD to price and distribute their products. The second example is the promotion of a fertilizer mixing plant -- a facility which, in the eyes of LAAD, is badly needed by Central American agriculture. LAAD, after analyzing the needs of agriculture, especially in the non-traditional fields, concluded that a mixing facility in Central America would increase the reliability and variety of fertilizer supplies to local producers.

One may also expect that LAAD will attach increasing importance to the competence of management in the new ventures it undertakes in Central America. The quality of management manifests itself at all stages of a project -- conception and planning, execution and on-going administration. The strongest projects uniformly had the most impressive management talent.

While certain projects contain all the characteristics of sound agribusiness systems building, a good many of the others do not, leading one to conclude that LAAD loans and investments have not been structured with systems building clearly in mind. As previously indicated, the systemic aspects of certain loans are decidedly weak, thus limiting their impact on the agribusiness sector.

With greater advance planning and selection of sectors to be helped and developed, LAAD loans in the future should more uniformly demonstrate the results of the system concept.

It is indeed early to measure the impact of LAAD operations in the region upon such things as employment, export earnings, agricultural practices, small farmers and the like. Many of LAAD loans have had an impact upon each of these areas. The report attempts to measure quantitatively and qualitatively this impact. Although our methods are as scientific and statistically correct as possible under the circumstances, the conclusions must be regarded as tentative in view of the limited life span of the projects and the sources of the information.

The lending practices of LAAD were given careful study through observation of what actually has been done and through discussions with LAAD officials and the borrowers themselves. The staff's investigative work of LAAD on individual projects is of a high quality. There is, however, no clear statement of lending and investment policy and, to some extent, the conditions imposed on LAAD through the AID loan control major lending policies.

LAAD differs from most financieras, or private lending institutions, assisted by AID, in that it is obliged to make equity investments or loans with equity features to the extent of two-thirds of the AID loan.

It is sometimes difficult for LAAD to support or finance worthwhile projects if it must take an equity position or have the right to do so at a future date. Hard-pressed entrepreneurs or companies experiencing difficulties are the most amenable to ceding a portion of their equity to LAAD. Such projects are not always the most needed agribusiness ventures, nor are they necessarily the soundest.

An additional factor is that LAAD may become a shareholder and a lender to the same project. In the event that a project requires additional financing, LAAD must act as both a lender and a borrower when considering the application for additional financing. To state the problem is not to resolve it. Other financieras are structured to lend to established borrowers providing medium-term financing at competitive rates. The very nature of LAAD's task puts it in a situation where the borrowers are not always solid nor the outcome of the projects always as certain as it might be in traditional crops or products. On the other hand, the equity feature in the loans allows LAAD the chance to make gains beyond those available to other more conventional financieras.

LAAD occasionally finds itself under pressure to make loans to projects of politically well-established groups and families. These projects appear to be based more on developing and maintaining relationships with important local groups than on key, or critical, agribusiness ventures which could not obtain alternative financing from other sources.

Relations with the Central American Bank for Economic Integration (CABEI) are close and a number of projects supported by LAAD also have CABEI loans. In most of these common projects the LAAD and CABEI investments were not simultaneous nor were they the result of joint planning. In fact, LAAD interest in the projects came after CABEI loans and after the projects had encountered operating difficulties.

The technical assistance input of shareholders of LAAD did not appear significant to project developers. Shareholders have advised and assisted LAAD management on various projects and problems but this assistance and advice was not apparent to the borrowers.

Borrowers do not seem particularly aware of or concerned with the ownership of LAAD by major American corporations.

The principal conditions beyond LAAD control are the limitation on the interest to be charged and the requirement that a good part of its loans contain an equity feature. As for the limitation on interest rates, this makes LAAD a cheaper source of money than most lending sources, especially when LAAD does not take an equity position.

In some instances, LAAD would be better off not taking an equity position or putting such a provision in its loans, but, instead, increasing its rate of interest. The equity provision very often places LAAD in a higher risk situation than would ordinarily be the case. Most promoters, or investors, do not welcome a shareholder who becomes such by converting his loan into common stock if the venture succeeds. In general, those enterprises which accept the equity feature are fairly desperate for new capital. This suggests high risk ventures.

While there are some other conditions beyond LAAD's control, (markets for non-traditional exports, earthquake in Nicaragua) they are not significant and have had little influence on operations.

2. Evaluation of LAAD's Efforts to Develop Capital Markets in Central America

LAAD's effort to develop a Central American capital market have been serious and sincere, but not yet of measurable importance. To some extent, LAAD's operations have resulted in a number of commercial bank loans to assisted enterprises and this perhaps is its most important step in the capital market of Central America.

It has actually financed one project in Honduras whose prime objective was to develop a wider market and a better distribution of shares in local companies. It has several other similar projects under consideration.

The development of capital markets in Central America has been studied by a number of persons and organizations but the size and scope of the market for debt and equity securities remains limited. It is doubtful that the projects currently under consideration by LAAD will materially advance capital market development although competent investment houses can no doubt make a contribution to a wider ownership of equities if other factors are in place.

Since the oldest LAAD loan with an equity feature dates back only to October 1972, LAAD has not yet divested itself of any of its equity investments or convertible loans. In most cases, LAAD has not exercised its option to convert loans to common stock. The impression is gained, however, that majority shareholders in an enterprise would expect to be offered the right to buy should LAAD decide to divest itself of its shares or its conversion rights. It does not appear likely that LAAD will be a significant source of new shares to be offered to the general public in Central America.

As for offering its own shares, thus far LAAD has exchanged 50,000 shares of its Central American subsidiary for the same number of shares in an Honduran investment company. LAAD plans for

distributing its own shares in Central America are not far advanced. It would seem that the following conditions must be met before a public issue could be seriously considered:

- 1) Profitability of LAAD (i. e. , LAAD-CA).
- 2) Payment of regular dividends.
- 3) Repurchase or other secondary market arrangements.

According to financial projections for LAAD, it is difficult, at this time, to anticipate when genuine public issue of the shares of LAAD of Central America might be possible.

3. Future Prospects

The prospects for financial viability of LAAD-CA are good, but not yet exciting. This conclusion is valid only if an anticipated additional concessional loan is made available to LAAD-CA. According to LAAD estimates, profits will rise from about three percent net worth in 1973/74 to about 5.6 percent on net worth in 1978/79. Profits are after an annual loss allowance of about one percent in 73/74 to one-third of one percent in 78/79 (calculated on estimated outstanding loans and equity investments). About 20 percent of net profits in the 1978/79 come from gains on sale of portfolio. It should be noted that LAAD contemplates on continuing to be bound by the nine percent rate on its loans.

There were a number of indications in our review of the need for more careful market studies especially in the United States in connection with the planning of new investments involving non-traditional exports and the marketing of these products.

This is particularly the case where a project in Central America attempts to capture a measurable share of the U. S. market and where substantial capital investment is involved.

Given the problems of analysis and on-going administration and surveillance of loans and investments, the question is raised as to whether the limitation of \$400,000 per loan (five percent of the final LAAD loan and equity) is wise. It can be foreseen that an increasing proportion of the time of present LAAD staff will be devoted to dealing with problem loans which in their entirety make a relatively small contribution to the achievement of LAAD objectives. On larger projects it is doubtful if LAAD can develop a critical lender-investor role for itself if it is subject to the present loan limitation. While it is by no means a truism, it frequently happens that small projects are generally less well financed, and less planning and management oriented. Consideration should be given to raising the loan limitation.

The question has been raised as to the extension of LAAD activities into other Latin American areas, in particular the Caribbean and the North Coast of South America. LAAD acknowledges it is considering this possibility. It would appear at the present state of LAAD's development that management in the operating subsidiary, LAAD-CA, is barely adequate for the present and the immediately foreseeable future. As for LAAD headquarters in Miami, competent management exists which could, under certain assumptions, be freed up for additional duties. However, any significant lending activities outside of Central America would require additional staff. The feasibility of such a development should be considered on its merits and not on the basis of a major input from existing staff. The wisdom of entering new geographical areas while Central American activities are still in a developmental -- if not experimental -- stage is to be doubted.

B. Recommendations

After a thorough review of LAAD's operations, as well as visits to a number of its sub-projects to test the effectiveness of LAAD's input we offer the following recommendations with regard to loan policy, operational policy, capital market development, financial policy and additional financing.

1. Loan Policy

- a. LAAD should be allowed to charge up to 12 percent interest on loans and preferred stock investments to (a) provide itself with a more favorable return for its risk and its monitoring activities and (b) provide a greater likelihood of attaining long-term financial viability.
- b. LAAD should not be required to include equity features in two-thirds of the loans made from AID funds (a) as it has been found that such equity is not in turn sold easily to the public and (b) as such a requirement is causing LAAD to become unnecessarily involved with high-risk ventures. The use of the equity feature should be more discretionary and should be utilized in cases which will enhance LAAD's long-term viability.
- c. LAAD should obtain special Loan and Investment Committee approval for new loans, regardless of size, to enterprises to which loans and investment have already been made.
- d. LAAD projects should conform to the original objective of promoting and developing non-traditional, agribusiness system-related ventures with export potential. LAAD should especially refrain from financing firms which either do not provide an important and immediately needed link in an agribusiness system, or are highly experimental in nature.
- e. LAAD should develop relationships for co-lending purposes with lending institutions in addition to CABEI, including national development banks and local commercial banks.

2. Operational Policy

- a. LAAD should contain its operations within the Central American area until such time that it is deemed that it is achieving, to a significant degree, the goals and objectives for which it was originally funded by AID, and that such experience can be readily adapted to other areas in Latin America.
- b. LAAD should, as a matter of policy, seek to play a more active role in identifying and promoting agribusiness activities rather than awaiting the approaches of promoters or entrepreneurs.
- c. LAAD should develop a capability to gather in-depth market and production information in order to identify broad areas of special interest to Central American agribusiness.
- d. LAAD should intensify its surveillance of existing credits.
- e. LAAD should explore the potential for the development of producer cooperatives, organizations which could provide very important system linkages, and which could involve wider segments of the rural population than is presently affected by the LAAD program.
- f. LAAD should explore the possibility of providing technical assistance to borrowers and co-venturers by including the expense incurred for such assistance as a part of the loan or investment package.

3. Capital Market Development

- a. LAAD should develop its contacts with existing financiaras and with national development funds.
- b. LAAD should concentrate its efforts on new agribusiness loans and reduce its efforts to improve the machinery for the promotion of the sale of equities. The urgency of the latter activity is not great, and reliance can be placed on private financing for the development of investment banking institutions.

- c. The restriction on dividends by LAAD to its shareholders should not be extended beyond the present five-year period in the event of a new loan. LAAD-CA should be permitted to pay modest dividends on any publicly held Class B shares, if justified by LAAD-CA's financial condition.
- d. LAAD should base its capital market activities upon improving the return on LAAD-CA shares as these may be more marketable than sub-project equity to the general public; and it may be advisable for LAAD to keep certain equities in its portfolio for a longer period of time.
- e. LAAD should explore the possibility of selling LAAD-CA shares to its borrowers, the shares to be paid for as a part of long-term financing extended.

4. Financial Policy

- a. LAAD should base its financial planning on creating a successful, viable institution with earnings sufficient to command respect in the market. A marginally profitable enterprise will serve no useful purpose to the U. S. Government, Central American agribusiness or investors.
- b. LAAD should extend their reserve for bad debts to cover possible losses on investments as well.

5. Additional Financing

- a. Based upon the experience gained to date, the quality of its staff, the economic impact generated, and its promise for the future, LAAD's efforts justify continued AID support through additional financing.
- b. In extending this financing it is not realistic that AID should require a paid-in capital to loan ratio of 1:3. This limitation should be decreased to 1:5 on additional financing.

I. ORGANIZATIONAL ASPECTS

A. Original Objectives and Goals

As set forth in the loan agreement between the Agency for International Development and the Latin American Agribusiness Development, S.A. (Loan Number 596-L-011, October 26, 1971), LAAD was to promote, finance and implement Central American agribusiness enterprises, especially those which offered non-traditional export potential. LAAD was to have provided not only financing, but was also to have provided technical assistance, in instances where it was required, to the same enterprises to which it had extended financing.

A second major area of responsibility, as delineated by the loan agreement, was to support the development of the Central American capital market through various means:

- Transference of ownership of shares held in project companies to a broad base of ownership outside those companies. LAAD was to utilize approximately \$4 million of the \$6 million AID loan to provide long-term financing with equity features, with the remaining \$2 million to be used for conventional, secured loans. The equity-feature financing was to have included loans with convertible options as well as the purchase of common or preferred shares in project companies. It seems implicit in stating this objective thusly that a public offering of the project companies' stock was originally envisioned.
- At an appropriate time in the future, as its operation attained viability and a capability to pay dividends developed, LAAD was to have sold LAAD de Centroamerica shares to local investors. For this purpose, \$1 million in authorized common shares has been set aside.
- Establishment of relationships with or support of the creation of underwriting and brokerage firms which could assist LAAD in (a) rotating its investment portfolio

by offering project company shares to the public as in the first point above, and (b) offering LAAD shares to the public, as in the second point stated above.

In addition, LAAD was to have pursued the ancillary objective of promoting projects in which there would be joint participation with the Central American Bank for Economic Integration (CABEI), which is likewise supported by AID funds but enjoys a larger capitalization and thus a greater lending power.

B. Organization Structure and Functions

LAAD is presently comprised of LAAD, the parent corporation, located in Miami, and a subsidiary corporation, LAAD de Centroamerica (LAAD-CA), located in Guatemala City, Guatemala. A marketing subsidiary, LAAD Marketing, is yet to be activated.

The LAAD shareholders are major U.S. agribusiness firms along with three major U.S. banks and a Peru-based hemispheric investment company. These "name" organizations, it seems, are not anticipating monetary return from their investment, but rather their \$2,000,000 investment is viewed as part of their respective public relations programs, both in the U.S. and Central America, along with the opportunity to have another source of information concerning Central American agribusiness development.

The Board of Directors, comprised entirely of high-level officers of those organizations and the president of LAAD, meet quarterly to hear project status reports and to discuss policy matters. The Loan and Investment Committee meets periodically to review financing requests over \$100,000 which have been submitted for their approval.

The ROCAP office has played an evaluative role, reviewing project status each time LAAD attained an additional \$1 million in loans and investments. They also approve all loans and investments of \$200,000 or more.

The two key LAAD officers are the President, Robert L. Ross, and the Vice-president, Thomas W. Mooney. At present, LAAD and LAAD-CA are more or less the same organization. There is much functional overlap between LAAD and LAAD-CA and the delegation of responsibilities and duties stems mainly from geographic location: LAAD is close to the shareholders and U.S. markets; and LAAD-CA is close to the projects themselves and the regional markets.

Ross heads the Miami office and he described his functions and time allocation by function in the following manner:

LAAD administration	20 percent
LAAD-CA affairs	35
Marketing activities	20
Shareholder relationships	20
Public relations	5

This allocation of effort is seen by us to be balanced and appropriate. He is aided by only the Treasurer of the Corporation and a secretary. Approximately 50 percent of his time is spent traveling, generally within the U.S. and Central America. A good portion of his effort of late, however, has been spent in investigating new investment and possibilities in other areas of the Caribbean and Latin America. The reason for this particular activity is that Ross intends to develop in the near future, a new subsidiary, LAAD-Caribbean. His other current concerns are: (1) bolstering LAAD's now rather limited capability in market research and marketing problems of borrowers, and (2) increasing the number of shareholders, not a particularly easy task.

II.

EVALUATION OF LAAD'S AGRIBUSINESS DEVELOPMENT EFFORTS

4.

II. EVALUATION OF LAAD'S AGRIBUSINESS DEVELOPMENT EFFORTS

A. Financial Assistance

Of its two broad agribusiness development functions, by far the greater impact has been engendered by its financial assistance role. Specifically, the project company managers felt that LAAD's loan terms were equal to or better than terms offered by local banks, i. e., interest was as low or lower (at nine percent); the size of LAAD's loan was usually larger; the length of LAAD's payback period was usually longer, and the period of negotiations much shorter. Commercial banks and other financieras generally lend only to producers of traditional commodities or to well-established business families. LAAD, in some instances, has played a role of working with supposedly riskier non-traditional producers to bring their businesses to a state where they will have little or no trouble obtaining long-term commercial bank financing.

LAAD has, on the other hand, extended financing to several businesses who could have just as easily obtained financing from other sources. To such borrowers, LAAD simply represents a source of money at good terms with minimal red tape -- in Central America, this is always a welcome prospect. Such borrowers were probably perceived as not risky and enabled LAAD to gain experience in new product lines, and more significantly, enabled LAAD to establish important and potentially helpful ties into the business and political community.

Central American banks invariably have high collateral requirements, and although LAAD requires 150 percent of the loan's face value in collateral, this is considerably less than the commercial bank collateral requirement. In addition, a certain flexibility in classifying collateral has enabled some businesses to obtain loans -- loans which would not have been obtainable through conventional sources. A good

example of this is the situation of the two cut-flower producers, a part of whose assets are less-than-permanent, plastic-covered growing areas. Additional greenhouse expansion was desired by the owners, and while banks would not accept such structures as collateral, LAAD would and, as a result, made the loans. Both of the expanded operations (located in Guatemala and Costa Rica) are functioning well, and both have made an economic impact in terms of employing large numbers of employees, and, to some degree, in promoting exports to the U.S. and other Central American countries.

LAAD's financial assistance program has unfolded rather rapidly; their first loan, which utilized shareholder capital, was made in July 1971; and the first loan utilizing AID money was made in July 1972. Since making the first loan in 1971, it has averaged making slightly over one investment or loan per month for three years. LAAD has overcome the bureaucratic entanglement which bogs down CABEI and other financieras and banks, as it has been in a hurry to show results. Overall performance is deemed to be rather good, although it carries several potential losers in its portfolio, these attributable, in part at least, to this motivation to create an impact in the short-term. An institution such as LAAD simply cannot carry out as many transactions as it has in non-traditional fields without getting mixed results.

To its credit, each investment or loan possibility is well investigated by LAAD staff which compiles rather complete documentation on each project before disbursing funds. The documentation is formulated according to a fixed format which covers: company background, markets and sales, sales projections, distribution, sponsors, board of directors, management, employment, plant processes and capacity, location, raw materials supply, past financial performance, working capital requirements; evaluation of projected financial performance, profitability, and

liquidity, form of LAAD investment, taxation and legal considerations, and legal impact. On the whole, we were impressed by the completeness and detail of the documentation for each of the projects reviewed.

B. Technical Assistance

The second function called for among LAAD's agribusiness development objectives, the expansion of technical assistance to funded projects, constitutes by far the weaker effort. Many of the companies visited implied through their responses that they view LAAD primarily as a financial institution from which they anticipate no technical help. Banks and other lending agencies in the region do not ordinarily provide such assistance. Some of the project companies furthermore do not require nor desire technical assistance -- they know their own businesses inside and out, and do not desire that outsiders meddle with their internal operating affairs.

Yet, we came upon several cases where the ability to draw upon outside technical aid would not have been only appropriate but would have aided the entrepreneur to a considerable degree. One such case was INTROSA,^{1/} the rubber processor, which desires to manufacture some items with its high-quality, processed rubber. A regional market study performed by someone knowledgeable of the industry is a prerequisite. Another case involved the merits of canning versus freezing mushrooms. Outside experts should be brought in -- however, we are not certain that it is incumbent upon LAAD, in its role of providing technical assistance, to bear the expense of such assistance. Perhaps some suitable mechanism can be devised whereby vitally needed assistance, which is not normally forthcoming from a financial institution, can be provided. LAAD might arrange for technical assistance, payment for which would be made by the project company as part of long-term financing extended by LAAD.

^{1/} A list of all LAAD projects visited is found in Appendix B of this Report.

In an effort to build its own technical expertise, LAAD has begun to specialize in certain product lines: a) vegetables, b) cut flowers, c) wood products, d) beef, and e) essential oils. Ross feels that through specialization his staff may better be able to develop more new business projects and the system linkages which he considers to be a key element in their success. In the LAAD de Centroamerica office, one staff member will be utilized nearly full-time in the future developing system linkages and inter-relationships. In at least one case, the conflict arising from LAAD's simultaneous support of two competitors underlines one possible detrimental effect of specialization. To further enhance the organization's overall marketing capability, LAAD intends to employ a processed vegetable marketing specialist in the U. S. to monitor marketing developments and to advise on contract negotiation with buyers.

Specifically, of the respondents who felt LAAD had contributed something in the way of technical assistance, most felt that the marketing contacts provided were the most important. Moreover, one firm had worked with LAAD staff to achieve a monthly financial analysis of his operation; several have received help in improving accounting systems; one received advice regarding raw material purchase price. Two firms commented favorably on receiving USDA regulatory and U. S. Customs information.

Although not specified in the original objectives and goals, LAAD can provide technical assistance through its distinguished stockholders. On several occasions LAAD has called upon its shareholders' Central American or U. S. offices, receiving help on technical matters. No company interviewed mentioned receiving assistance directly from LAAD shareholders. However, we were told of examples of assistance extended in the following cases:

- Ralston Purina worked intensively with the Nicaraguan hog operation pointing out a management problem;
- Chase National Bank put LAAD in touch with U.S. breeders of Chianina and Beefmaster cattle; and
- Borden worked with wood products manufacturer principals for two days after which it produced a report enunciating the weaknesses of the firm.

C. Identification of Entrepreneurs

As the evaluation progressed, one of the essential ingredients for a successful project came to light and became increasingly important. Given the Central American developmental environment as it is today, there is a multitude of projects to which funding and technical assistance could be extended. However, success for LAAD in the long-term requires them to first identify potentially outstanding entrepreneurs, to study and assist in shaping their proposals, and then to support them with financing and the technical assistance they require. Truly outstanding entrepreneurs will lead LAAD from one successful project to another, and will be instrumental in LAAD achieving the developmental impact for which it was created.

To date, LAAD's performance in this vein actually has been quite good. In the few cases where management is weak, the projects are invariably weak. To its credit, LAAD has not shied away from non-Central Americans in identifying and supporting some outstanding managers and entrepreneurs. Furthermore, LAAD's efforts have not, for the most part, been diluted by social motivations to "reach the small man" -- LAAD can produce considerable social and economic benefit by supporting businessmen whose success is predictable.

D. Integrated Agribusiness System Building

The "systems approach" to agribusiness is a central theme in LAAD's operational policy, entailing linking producer to processor, processor to distributor, and so on. As President Ross stated it, "our role is to fill gaps in the total agribusiness process and to identify new directions." We agree with this as an orientation. However, our observations were that to date some accomplishments have been more by chance and rationalization than by design. LAAD, at times, has made a rather loose interpretation of the policies to justify funding some projects.

We encountered the following situations upon our field visits.

- There are indeed examples of "filling the gaps," and are deemed to be good integrated system-building activities. One example was the creation and implementation of American Floral Delivery, Inc., a Miami flower forwarding firm conceived after a series of problems encountered in transferring flowers from airlines to other airlines or to flower wholesalers.
- Many projects are fully integrated (or integrated to the degree necessary for a workable system) and therefore do not need the assistance from LAAD in this respect. Some system linkages presented by LAAD were either unknown or seemed unimportant to the respondent businessmen.
- Some linkages were found to be, as yet, very weak. One specific example was brought to our attention in Guatemala. The system comprised a mushroom producer, frozen food processor, frozen turkey processor, food distributor, and supermarket chain -- all LAAD projects. Upon closer examination, little actual trade was being carried on which could be attributed to the

"system" (frozen food is simply not of much significance yet in the region) and, therefore, the system aspect was not of much consequence.

- o The loan to LANSА, the Honduran airline, represents a whole new dimension to the system building process -- the regional transportation link. Most producers and processors expressed little interest in shipping to the U.S. by LANSА because the differential between surface and air cargo rates prohibits utilization of the airline. Both cut-flower operators did specifically express knowledge about and interest in utilizing LANSА's service. Despite some problems with regularly scheduled carriers, we doubt whether LANSА, because of the limitations of its fleet and landing rights, and therefore, its service, would be able to match the service of those carriers.

E. LAAD's Economic Impact

1. Non-traditional Employment

One significant impact resulting from the developmental support provided by LAAD has been the continued and increased employment of large numbers of persons in non-traditional industries. The 16 businesses visited which were in operation had 1,448 full-time and 658 part-time employees (see Exhibit I). Most employment was in the production category, workers who receive, in most cases, the minimum daily wage. This situation should not be disparaged, as it is a welcome alternative for workers in countries experiencing generally high unemployment or underemployment.

Of the businesses visited, nine indicated a probable forthcoming increase in employment; five will stabilize their employment levels; and one plans to decrease its number of employees. The firms employing the largest number of persons were: Las Flores, 250 full-time and

EXHIBIT I

NON-TRADITIONAL EMPLOYMENT BY PROJECT COMPANIES VISITED
JUNE 1974

Project	F U L L - T I M E					Total	PART-TIME Total
	Management	Administration	Sales	Production	Other		
CODICASA food distribution	3	29 ^{1/}	32	-	-	64	-
INTROSA rubber processing	3	3	-	36	-	42	-
Gran Alpina meat processing	3	4	15	24	-	46	-
Las Flores flower cultivation	1	14	-	235	-	250	360
ALCOSA frozen food processing	3	-	-	12	-	15	8
Los Pinos mushroom cultivation	1	-	-	5	-	6	10
LANSA air line	6	5	6	-	21	38	-
CAICESA palm plantation and oil extraction	2	5	-	-	70	77	20
Hielera Sequeira ice production	2	5	19	12	3	41	-
AMOLONCA frozen vegetable processing	2	8	1	15	-	26	100
PROSAN cotton sanitary products	-	30 ^{2/}	-	220	-	250	-
CAMSA slaughter house	25 ^{3/}	-	-	270	-	295	-
Pozuelo Picasso furniture manufacture	4	4 ^{4/}	1	60	-	65	-
American Flower flower cultivation	4	2	2	150	-	158	150
Pavos, S.A. turkey raising and processing	3	1	1	15	-	20	10
Avicola Salvadoreña chicken raising and processing	4	6	7	38	-	55	-
	66	112	84	1,162	24	1,448	658

1/ Includes warehouse workers. 2/ Includes management. 3/ Includes administration. 4/ Contracted with parent company for services.

360 part-time; American Flower Corporation, 230 full-time and 150 part-time; Taylor and Associates, 295 full-time employees; and PROSAN, 250 full-time employees.

With regard to employment, it should be noted that: (a) most of the project businesses visited were already in existence some period of time before LAAD assisted with financing and therefore it is difficult to determine the exact impact made upon non-traditional employment by that financing, and (b) in some cases where financing is used for capital equipment, the actual number of employees has actually decreased. According to our calculations it required an average of \$10,756 in capital to create one full-time job with a range from \$2,183 to \$47,317 in capital required (see Exhibit II). LAAD's input represents approximately 16.7 percent of that total required capitalization.

2. Export Earnings

As one organizational objective is to promote and develop industries with export potential, we attempted to estimate foreign exchange earnings generated by the firms we visited. We feel that despite certain limitations, the calculation is adequate to give some indication of the firms' import-export characteristics and the sources of the foreign revenues generated. For a majority of the firms visited, the most recently completed operating year represents a typical operation with three exceptions.^{1/} The analysis is perhaps most weak in not considering the effect these

^{1/} (1) ALCOSA and Los Pinos which are early in their startup periods, and (2) CAICESA which is in its pre-production period. For ALCOSA and Los Pinos, we have estimated annual sales and purchases, and CAICESA, has been included as LAAD will surely continue to have at least one project which is in its pre-production or early startup period.

EXHIBIT II
CAPITALIZATION PER FULL-TIME EMPLOYEE
OF PROJECTS VISITED

<u>Project</u>	<u>Total Capitalization</u>	<u>Total Full-time Employees</u>	<u>Capitalization Per Employee</u>
CODICASA	\$ 628,543	64	\$ 9,821
INTROSA	501,032	42	11,929
Gran Alpina	263,000	46	5,717
Las Flores	545,776	250	2,183
ALCOSA	154,700	15	10,313
Los Pinos	63,100	6	10,516
LANSA	611,300	38	16,086
CAICESA	1,450,506	77	18,837
Hielera Sequeira	310,813	41	7,581
AMOLONCA	1,243,252	26	47,817
PROSAN	3,928,207	250	15,713
CAMSA	3,632,343	295	12,313
Pozuelo Picasso	927,057	65	14,262
American Flower	680,434	158	4,306
Pavos, S. A.	435,158	20	21,757
Avicola Salvadorena	<u>880,459</u>	<u>55</u>	16,008
	\$15,575,246	1,448	

$$\frac{\text{Total Capitalization}}{\text{Total Employees}} = \frac{\$15,575,246}{1,448}$$

Average Capitalization Per Employee = \$10,756

industries have made upon import substitution, but considering the various product lines this could not have been too large a factor.

Analyzing Exhibit III, we find net foreign exchange earnings generated per firm ranging from a negative balance to a high of \$4.3 million in net earnings for one firm. Six firms studied had a negative balance after the commodity exchange calculation, but this was offset by a foreign loan and equity inflow in five cases and resulted in a positive foreign exchange balance for four of the firms. A total of \$6.3 million of exchange earnings was produced by all firms, \$4.5 million of which resulted from an excess of exported over imported commodities.

Viewed on an overall basis, we can say that a substantial number of firms produce a beneficial foreign earnings impact; but some have little positive effect upon foreign earnings because their products are primarily destined for domestic markets and/or their commodity purchases are mainly imports. Central American Meats, S.A., stands foremost among the project companies which do produce a positive foreign exchange inflow. Two companies represent interesting, but not typical, foreign exchange situations: (1) Hielera Sequeira, exports no ice nor replaces imports, and after its capital equipment was in place, imported no products (even the electricity consumed is generated by hydro-energy plants), leaving it devoid of direct exchange earnings impact. (2) CODICASA shows up most poorly, with a negative foreign exchange balance, because the food and non-food wares it handles are mostly the packaged, institutional type, not produced, as yet, in Guatemala.

3. Impact Upon Small Farmers and Cooperatives

LAAD was not contractually required by AID to direct funds to small farmers. Nevertheless, AID/ROCAP wanted this evaluation to touch upon this aspect. We found the effect made upon small farmers

EXHIBIT III

ESTIMATED FOREIGN EXCHANGE EARNINGS BY PROJECT COMPANIES VISITED
(Uses Last Complete Operating Year Data)

EXHIBIT III

Project	C O M M O D I T I E S							SERVICES	CAPITAL		Total Exchange Earnings
	Total Sales	Export Percentage	Total Exports	Total Purchases	Import Percentage	Total Imports	Exports Less Imports	Total	Foreign Loans and Equity	Foreign Dividends Interest, Reinvestment	
CODICASA	\$ 1,935,029	0	0	\$ 1,667,947	80	\$ 1,334,357	\$ (1,334,357)	0	\$ 100,000	0	\$ (1,234,357)
INTOSA	770,974	74	\$ 570,520	665,208	2	13,304	557,216	0	0	\$ 21,500	585,716
Gran Almirante	342,443	0	0	173,104	10	17,310	(17,310)	0	50,000	0	32,690
Las Flores	540,934	95	513,637	354,903	35	129,021	384,616	0	100,000	-	484,616
ALCOBA	40,000 ^{1/}	30	12,000	70,000 ^{1/}	57	39,900	(27,900)	0	60,000	0	32,100
Los Pinos	41,500 ^{1/}	20	8,320	11,700 ^{1/}	43	5,000	3,320	0	20,000	0	23,320
LANSA	-	-	-	137,100	45	61,505	(61,005)	\$ 70,000 ^{2/}	50,000	0	50,000
CAICERA	0	0	0	314,700	100	314,700	(314,700)	0	0	0	(314,700)
Hielera Sequira	211,278	0	0	48,169	0	0	0	0	0	0	0
AMOLONCA	551,808	100	551,808	255,517	0	0	551,808	0	300,000	12,653	854,461
PROBAN	1,120,000 ^{3/}	72	806,400	512,400	80	409,920	396,480	0	0	51,300	447,780
Camisa	4,327,037	100	4,327,037	4,660,072	10	466,007	3,861,030	0	400,000	0	4,261,030
Peruete Picasso	502,330	50	251,165	4,557,060	2	78,612	212,313	0	400,000	0	612,313
American Flower	421,719	75	316,289	109,879	6	6,642	309,647	0	0	23,100	332,747
Fayos, S.A.	273,733	30	82,120	135,077	60	81,045	1,091	0	150,000	0	151,091
Avicella Salvadorena	482,500	0	0	107,640	1	1,078	(1,078)	0	120,000	0	118,922
TOTALS	\$11,659,979		\$ 7,473,829	\$14,101,625		\$ 2,953,592	\$ 4,521,225	\$ 70,000	\$ 1,760,000	\$ 113,563	\$15,238,473

^{1/} Estimated.^{2/} \$500,000 total sales, approximately 12.5 percent (or \$70,000) of which were services sold to parties outside Honduras.^{3/} Financial data available for six months only -- estimated typical operating year.

and cooperatives to date to be nearly nil. To most of the businessmen interviewed who might conceivably at some point acquire raw materials from the small farmer, such growers do not represent a reliable source of supply of quality products at the present time. Cooperatives, in turn, are viewed as too political and therefore too unreliable to deal with. Therefore, the businesses prefer to assure their supply by cultivating or raising their own crops and livestock.

Frigorificos, the Taylor group's frozen vegetable processor, is stepping out of this mold by promoting a vegetable production cooperative comprised of 35 to 40 medium-sized farmers to supply its new plant. Cooperative members would not necessarily have an equity position in the beginning, but this could evolve as Taylor's meat packing subsidiary, CAMSA, is partially owned by its suppliers. This lone example certainly does not represent a trend, but it may well prove out, and could serve as a model for involving more farmers in the development process as promoted by LAAD.

4. Changes in Agricultural Practices

The overall effect upon agricultural practices in the region was found to be minimal, although we did uncover a few examples in which some change has been implemented. Change was either effected through higher quality requirements of processors or emulation of new methods by neighboring farmers.

Processors who purchase their raw materials from individual producers, such as the meat processor Gran Alpina, can affect the quality of goods purchased to some degree. Taylor and Associates in Costa Rica has changed the method of purchasing beef from its producers from a carcass weight to a deboned weight system, and has introduced Chianina cattle, a high-gain breed heretofore not grown in Central America. As the purchase of raw materials by the projects from outside parties

is the key element in this "change process," and, as there is little such purchasing being done, the outlook for creating much change in agricultural practices is seen to be small in the future.

The effect of emulation was the most difficult to evaluate during the short period spent at each site. One Guatemalan flower producer did point to local flower growers simulating his efforts, thus raising the quality of flowers.

5. Domestic Consumption Levels

The direct effect upon domestic consumption by LAAD appears to be very slight because the bulk of the product lines handled are either destined for upper middle and upper class consumption, or for export.

Five plants visited apparently contribute or will contribute to higher levels of regional consumption: (a) Hielera Sequeira, the Managuan ice plant, sells its product almost exclusively to the poor who use it for refrigeration purposes; (b) Avicola Salvadoreña sells chickens to municipal markets, making more and better quality meat available at lower prices; (c) CAICESA, the African palm nut plantation and oil extraction plant, will increase the supply of cooking oil now available to the public in Honduras; (d) an increasing percentage of flower production now being shipped within the region; and (e) a wood processing plant and furniture business is expanding sales of low cost furniture within the region.

6. Creation of New Businesses

In most cases the interviewee could report the formation of no new businesses formed as a result of or to provide service to his business, although many did feel that an additional volume of business was provided to numerous already-existing companies through their operations:

- (a) Guatemala -- a need for plastic sleeves to hold bundles of flowers at Las Flores resulted in the creation of a small operation to produce them from polyethylene material;
- (b) Miami -- the creation of American Flower Delivery by the cut flower operations;
- (c) Costa Rica -- a cattle trucking operation has been started to carry animals to the Central American Meats slaughterhouse;
- (d) Costa Rica -- a steady supply of cowhides from CAMSA's slaughtering operation has contributed considerably to the feasibility of erecting a tannery operation nearby; and
- (e) Guatemala -- Gran Alpina entered into the new business of supplying fresh meat to super markets in connection with new purchasing arrangements to insure a source of raw materials for its processed products.

D. LAAD's Lending Practices and Their Implications

The theory and practice of lending institutions acquiring, at the time of a loan, an option to purchase equity of a borrower, or to convert loan or preferred stock into equity are by no means new. Two examples of such institutions using this technique are International Finance Corporation and ADELA. Neither of these two limited their activities to a region the size of Central America nor did they limit themselves to a particular industrial sector such as agribusiness. Therefore, LAAD, while not purely innovative, has distinct experimental aspects.

It is much too early to comment with certainty on the success of LAAD lending and investing in enterprises engaged in developing non-traditional agricultural exports or products for consumption within the region. Given the character of the existing capital market in Central

America, it is unlikely that local equity and loan capital would have been available in adequate amounts for investments of interest to LAAD. Therefore, LAAD should continue to have the power to make equity investments as well as loans if it is to accomplish its mission.

Even when equity is provided by a project's developers, loan capital at nine percent for a medium-term period does not always represent a fair return for the risks and administrative and investigative problems which arise. Thus, LAAD should also have the right to participate in the profits of a venture whose success has been made possible by LAAD's investment and work. The convertible feature of loans is, therefore, in many cases entirely appropriate. A six percent spread between the cost of the AID loan and the rate at which LAAD lends is not excessive and probably low when one calculates the costs and risks of lending to new and non-traditional ventures. A right to participate in the profits is essential if LAAD is to become a viable institution.

1. Equity Financing

Equity features in loans do present certain problems which must be kept in mind. Investors or promoters in Central America are loath to surrender a portion of their equity to a lender whom they may think is already adequately secured by collateral. Those that have done so were virtually all in some financial or business development difficulty and could not easily secure financing equivalent to that offered by LAAD without making this concession. One must look at all of LAAD's loans with equity features as containing special risks, even in cases where LAAD has done all possible to eliminate or minimize the risks.

Nonetheless, LAAD does not intend to exercise the convertible feature in its loans in every case. In some instances, the borrowing enterprise does not have sufficient long run potential to justify the risk

inherent in converting loan to equity. In most cases, however, LAAD does intend to exercise its right to buy stock or to convert a portion or all of its loan to equity. In so doing, LAAD believes that the progress and prospects of the company are good and that earnings (either paid out or reinvested) will give it a much better return than the nine percent available on the loan. On the other hand, LAAD recognizes that its equity investments will not roll over as quickly as in the case of loans being regularly serviced.

Therefore, LAAD must be convinced that the matured enterprises will pay dividends in substantial amounts or that LAAD will be able to sell its equity at an appropriate time. More shall be said regarding the sale of equity later in this Report. At this time, it should be pointed out that LAAD, once it assumes an equity position, becomes in many instances both a shareholder and a lender, or a shareholder and a potential lender. If all goes well there should be no problem. If, on the other hand, things do not go well, LAAD will find itself with the potentially conflicting interests of a shareholder and a lender. As a lender, it might appear better to adopt a conservative line with respect to its credit or towards making new loans; as a shareholder, it may believe that an additional loan may be the best way of preserving its equity investment. Certainly, other shareholders will press this point of view. There is no certain way of avoiding this conflict although it is possible to set up safeguards to ensure that such loans are thoroughly studied and reviewed before being made.

A review of the figures provided by LAAD clearly suggest that LAAD needs some successful equity investments to attain viability. Likewise, the possession of a substantial equity portfolio puts it in a good position to carry out its secondary objective of developing capital markets and broadening the base of ownership of enterprises. The

risks mentioned above cannot be avoided and management must be alert to danger signals.

2. Political Loans

Certain loans made by LAAD have been termed "political loans" for want of a better term. There is no intention of suggestion that these loans are weak; indeed, from the point of view of security they may be the strongest of the portfolio. These loans were as carefully researched, studied and analyzed as any others. With one exception, these loans carry no convertibility feature and very likely, the borrowers could have obtained financing elsewhere. The advantages to the borrower may have been a lower rate of interest, longer repayment period or prompt availability of the credit. The advantages to LAAD was the association with key groups or families who might be in a position to assist LAAD in the future in various legitimate ways.

Examples of such loans are those to INTROSA in Guatemala, AMOLONCA in Nicaragua, Avicola Salvadoreña in El Salvador. There may be others but these were among those visited by the consultants. A fine example is CODICASA of Guatemala. Here, a loan was converted to an equity investment, but otherwise the group relationship was important.

The other characteristics of the loans -- with the exception of the CODICASA investment -- indicate that they fit well into the system concept of LAAD lending. It is not known how hard LAAD pressed for an equity feature in these loans but discussions with the borrowers made it clear that these were closed corporations and that a lender's leverage was not sufficient to obtain access to ownership.

3. Commercial Bank Lending

As can be seen from Exhibit IV, commercial bank credit has flowed in good volume to LAAD financed enterprises. Certainly, LAAD investigations, participations and loans must have encouraged commercial banks to make credits available to the enterprises. This represents a significant development. Even though the banks are no doubt well secured, by chattel or signatures, one must remember that the enterprises being financed are not traditional to the region. Thus, LAAD can be said to have opened up channels of private credit that might have otherwise been closed.

E. Relationship with CABEI

The relationship of LAAD to the Central American Bank for Economic Integration (CABEI) is not a carefully planned or structured one. LAAD has made loans or investments to six enterprises to which CABEI has also lent money.^{1/} In most, if not all cases, CABEI was the first lender while LAAD came in later, usually in connection with a program for a turn around of the economic fortunes of the business.

CABEI and LAAD have not worked together in the coordinated fashion suggested in the Capital Assistance paper. CABEI has broader interests and generally finances larger projects. For smaller loans, there is a distinct preference on the part of borrowers to deal with LAAD which operates without the cumbersome bureaucracy of CABEI. CABEI

^{1/} Exhibit IV includes only projects visited which were in operation. CABEI has lent money to Fomento Internacional (\$100,000), Procesadora de Maderas Pozuelo (\$650,000), Tenería Gisa (\$500,000) and ATCIEMCO (\$520,000), all of which are LAAD projects.

EXHIBIT IV
PROJECT CAPITALIZATION
THROUGH
LAAD, COMMERCIAL BANKS, INVESTORS, CABEI AND OTHER SOURCES

PROJECT	LAAD	COMMERCIAL BANKS		INVESTORS	CABEI	OTHER *	TOTAL CAPITALIZATION
		Short-Term	Long-Term				
CODICASA	\$ 100,000	-	-	\$ 100,000	-	\$ 428,543	\$ 628,543
INTROSA	100,000	\$ 93,376	\$ 17,859	88,400	-	201,397	501,032
Gran Alpina	100,000	-	25,000	135,000	-	3,000	263,000
Las Flores	100,000	103,505	-	82,382	-	259,889	545,776
ALCOSA	60,000	-	-	100,000	-	(5,300)	154,700
Los Pinos	15,000	-	3,000	40,000	-	5,100	63,100
LANSA	41,400	20,000	19,900	170,600	-	359,400	611,300
CAICESA	250,000	250,000	300,000	625,000	-	175,506	1,450,506
Hielera Sequeira	100,000	25,364	27,506	117,737	-	40,206	310,813
AMOLONCA	300,000	573,781	255	171,429	140,700	57,086	1,243,252
PROSAN	200,000	71,428	233,398	1,412,286	570,000	1,441,094	3,928,207
Taylor and Associates (CAMSA)	400,000	30,993	611,934	1,676,304	-	913,112	3,632,343
Pozuelo Picasso	400,000	19,395	8,372	581,395	-	(82,105)	927,057
American Flower	159,400	5,007	-	150,000	-	366,027	680,434
Pavos, S. A.	160,000	58,280	-	143,400	-	73,478	435,158
Avicola Salvadoreña	120,000	-	117,892	320,000	-	322,567	880,459
	<u>\$ 2,605,800</u>	<u>\$ 1,251,129</u>	<u>\$ 1,365,116</u>	<u>\$ 5,792,433</u>	<u>\$ 710,700</u>	<u>\$ 4,177,990</u>	<u>\$15,575,246</u>
	(16.7%)	(8.0%)	(8.7%)	(37.0%)	(4.6%)	(26.8%)	

* Supplier credit, short-term loans from individuals, etc.

has found the intervention of LAAD useful in salvaging projects in difficulty. LAAD, for its part, with new money, can make for itself advantageous arrangements with companies already financed by CABEL.

It would be expected that the more natural public partners for LAAD would be the national development banks. These institutions can more readily process smaller loans within their borders. LAAD has contact with these institutions and has lent to companies which are borrowers from them.

To date, however, LAAD has not promoted a project, in the investment banking sense, putting together the entire financial package. Hopefully, this will occur as LAAD gains experience and takes the initiative.

F. Shareholder Input

In all interviews, we found no evidence of technical assistance to LAAD borrowers from the shareholders of LAAD. On the other hand, President Ross of LAAD has made extensive use of shareholder corporate facilities in getting informed judgments and answers on problems that have arisen on LAAD loans and the marketing problems of LAAD assisted ventures. Thus, there may have been an indirect shareholder impact not readily discernible by the borrowers.

The capability for assistance from shareholders exists and there appears to be no hesitancy on the part of LAAD officers to make use of this assistance when the occasion arises.

G. Conditions Beyond LAAD's Control

What are the conditions beyond LAAD's control in the implementation of its lending policies? Fortunately, they have been very few and none endemic to the area.

Political and economic developments within Central America have been moderately favorable. Certainly, LAAD has not been hampered in its search for suitable projects by any significant adverse conditions.

Conditions in export markets, principally the United States, are beyond LAAD's control. LAAD, however, is attempting to improve its intelligence of market developments, thus putting itself in a better position to advise and assist its borrowers.

To some extent, one might argue that the absence of a capital market or at least a market for equity shares represents a restraint upon LAAD lending. However, no plans for obtaining local financing were based upon tapping local investment funds of this character and therefore, LAAD operations cannot be said to have been hindered.

Perhaps the most important conditions affecting LAAD lending are those contained in the AID loan contract, namely the nine percent interest limitation and the requirement that two-thirds of the financing contain equity features. These restrictions force LAAD, on the one hand, to accept a lower return on loans than might otherwise be feasible or reasonable. The nine percent rate makes no distinction between a straight loan and a loan with a convertible feature. It is customary in lending to accept a lesser rate of interest when the right to convert exists.

The second requirement is that two-thirds of loans be equity-related forces LAAD to seek out such loans. There are good reasons why such loans tend to be riskier than straight loans. As explained elsewhere, most promoters or entrepreneurs do not welcome giving up a portion of the equity in their ventures and only do so when under economic pressure. It is possible that this condition leads LAAD to accept greater risks than would otherwise be the case.

III. EVALUATION OF LAAD'S EFFORTS TO DEVELOP CAPITAL MARKETS IN CENTRAL AMERICA

LAAD's efforts to support the development of a Central American capital market have not yet approached the visions contained in the Capital Assistance Paper describing the proposed loan to LAAD. The paper seemed to suggest that there was substantial investment capital -- of a risk nature -- available in Central America. What was lacking -- it was also suggested -- was a suitable and interesting supply of securities and the technical means to distribute those securities to the potential buyers.

In this analysis, certain factors were overlooked or minimized. First, there are relatively few equities currently available in the market. These are mostly the issues of traditional industries, such as breweries and cement plants. These securities pay good dividends regularly. The demand for these shares generally exceeds the supply and the number of shareholders is not great. Other equities are of companies which have strong family ties and these securities do not come on the market in any volume.

The average Central American buyer of an equity or debt security seeks several things. First, he seeks security. This he determines by the record of the company and its place in the economy. Second, he seeks a satisfactory and reliable return on his investment. This return has been, and continues to be, in the neighborhood of 12 - 15 percent. This rate has nothing to do with the present high rates of interest in the United States. For many years, government securities and savings deposits have paid 8 - 12 percent in Central America. Thirdly, he seeks liquidity. That is to say, he wants a market for his investment at acquisition value or better. He may not utilize this facility but he does not wish to be locked in.

If these are the criteria for investments, it should be evident that the market for LAAD securities or the equities in its sub-projects is some way off in the future. Nonetheless, LAAD has devoted some efforts to developing mechanisms for a better and wider distribution of equities in Central America. It has made one loan in Honduras to Fomento Internacional for this purpose. It is in touch with other groups in El Salvador and Nicaragua about the formation of investment companies which would not only provide better facilities for trading in securities but would serve as local investment bankers in putting together projects of interest to LAAD. The experience with the Honduran investment company has not been notable and the other projects have encountered obstacles.

To date, therefore, it cannot be said that LAAD efforts to develop a capital market in Central America is of great significance nor is it likely to be for some time. Other developments must take place before the demand for risk securities is significant. Assisting in the creation of companies designed to stimulate interest in securities and to provide a better secondary market for securities will be helpful. More important, however, will be supply of securities with characteristics attractive to investors.

A. Divestiture of Equity Holdings

Under the circumstances, LAAD has not yet sought to divest itself of any equities or convertible securities in its portfolio. There are several reasons for this. First, LAAD has a very limited supply of equities although this supply will increase as options are exercised. These equities do not, as yet, have any dividend-paying capabilities nor have the issuing companies thoroughly established themselves, at least in the minds of the investing public. A second reason is that LAAD has no plans for divesting itself

of certain equities, preferring to hold these for their income-producing qualities. A third reason is that most of the entrepreneurs who have given LAAD an opportunity to "buy in" expect that LAAD would offer them the right to repurchase these equities rather than reselling them in the open market.

In other cases, where the sale of equities is possible, the entire enterprise may be sought by another corporation. Thus, the shares would not flow to the market place but to another corporation.

Each time that LAAD converts a loan into equity it must anticipate that one of two developments will occur. Either the dividend return will exceed interest income and also cover some of the repayment of the AID loan, or that there will be an attractive market for the equities, or both. Otherwise, heavy equity investment in weak companies could seriously handicap LAAD's future. To be sure, there will be mistaken or disappointing investments but some of LAAD's successes will probably more than offset the losses.

Sale of LAAD's equities in its sub-projects in the markets of Central America would appear to be a number of years in the future. Indeed, LAAD's own projections show modest capital gains -- presumably in its investments -- commencing, in significant measure, in 1976/77.^{1/} As LAAD says in an informal document made available to the team, "the companies will not have developed to a point permitting them to enjoy a market based on present and predictable dividend payments."

In conclusion, it would not appear that LAAD will be adding significantly in the next five years to the supply of equity securities in the

^{1/} See Appendix A-II.

open market although this does not mean that LAAD will not itself enjoy a dividend flow or will not have an opportunity to sell the equities to certain specially interested investors.

B. Public Offering of LAAD Shares

The public offering of LAAD of Central America shares is likewise some distance away for the same reasons cited above. The shares do not yet have the characteristics which would make them attractive to the public. Nor are the activities and objectives of the company sufficiently well understood to make the shares interesting to the more speculative investor.

LAAD-CA has authorized a special issue of Class B stock especially designed to be sold in Central America. The authorized issue of this Class B Stock is \$1,000,000, or one-half the authorized issue of Class A stock held entirely by LAAD. Thus far only \$50,000 -- or 500 shares of Class B stock -- have been issued. These were issued in exchange for a like amount of shares of Fomento Internacional of Honduras.

LAAD-CA hopes to issue a substantial number of shares in Central America during 1974/75 and smaller amounts thereafter. LAAD-CA contemplates paying a modest dividend of 2.5 percent on these shares. It is by no means certain that these shares will be attractive to buyers. In view of the brief history of LAAD-CA which is just beginning to be in the black and the modest dividends that the shares will pay, the sale of the shares is problematical if not unlikely.

We conclude that LAAD-CA will depend for some time on equity provided by its parent, LAAD. The prospects of equity from this source depends on the willingness of existing and new American shareholders

to provide additional capital. Since no discussions were held with shareholders, no judgment can be offered on this source of capital.

One market for LAAD-CA shares deserves exploration. If at the time of making a loan to an enterprise, LAAD required the borrower to buy a modest amount of LAAD-CA shares, a beginning of share sales could be made. LAAD-CA could finance the purchase over the period of the loan thus making the acquisition relatively painless for the purchaser. The borrowers are the buyers most likely to appreciate the importance of LAAD's continued existence. Had such a policy been in effect, it is likely that a fair amount of LAAD-CA shares would have already been sold.

IV. FUTURE PROSPECTS

A. Financial Viability

The financial viability of LAAD-CA, the operating subsidiary of LAAD merits careful study. The team was unable to make an independent study, assessing the many assumptions and policy determinations that would be required. The team was given a draft of such financial projections by LAAD-CA (see Appendix A-III). LAAD should not be held to these projections since they are not based on policy decisions taken by the Board of LAAD. Nonetheless, the projections are of considerable interest in looking at LAAD's future.

The most important assumptions are that an additional AID loan of \$6 million will be obtained on the same terms as the first loan and that another \$2 million of share capital will be secured. Finally, \$1.95 million of LAAD-CA Class B stock will be sold in Central America between the years 1974/75 and 1978/79.

Net profits of LAAD-CA are estimated at three percent return on net worth in 1973/74 to five percent in 1978/79. These profits allow for a small allowance for losses on loans and investments -- varying from one percent in 1973/74 to three-tenths of one percent in 1978/79.

LAAD also assumes that it will lend at nine percent as heretofore and that it will be obliged to lend two-thirds of an AID loan with equity features.

While LAAD-CA is well financed in that it will have approximately \$6 million in common stock against \$12 million in long-term debt, earnings on this stock by 1978/79 would only amount to seven percent. Earnings of this magnitude would not make LAAD stock an attractive investment in Central America -- or for that matter, in the United States. Any further investment by U. S. companies will have to be made on the basis of public relations motives.

Thus, LAAD, on the basis of its own tentative projections, appears to be all somewhere between an ordinary private financiera (of which AID has financed a number) and a government institution with modest profit-making objectives. One can argue that LAAD has under-estimated its earnings or gains on its equity portfolio, but equally one can argue that losses on investments may be higher than provided for.

To improve the long-run prospects for LAAD viability, LAAD could be empowered to charge a higher rate of interest on its loans. In many cases, the cost and conditions of obtaining medium-term capital from competing sources warrant a higher than nine percent rate. Likewise, LAAD can reduce the number of speculative investments it makes, limiting these to interesting and important agribusiness projects in which LAAD is a prime mover. The necessity of having an equity feature in two out of every three dollars of AID loans forces LAAD to seek out situations where an owner is willing to cede a portion of his ownership to a lender. As explained earlier, this does not always lead to the best projects. If LAAD were not under this requirement, it might reserve its equity-featured loans to those projects in which the possible gains were substantially greater than the risks of loss.

Changes of this type might well lead LAAD from the prospect of marginal viability to the probability of substantial viability. After all -- no one's interests, be it AID, LAAD, or the borrowers, are served by a modest return on capital in an environment where 15 to 20 percent return is common.

B. Need for Intensive Market Studies

To date, LAAD has not been able, to promote and participate in development projects. They have, rather, reacted to the proposals of

borrowers or other parties in need of investment capital. If LAAD desires to plan in advance for the development which it needs and desires, and further, if it is to be an effective promoter of projects at the "ground level," it must acquire and develop the type information from which developmental and entrepreneurial ideas will follow.

In the case of vegetable production and processing, for example, knowledge of production and consumption trends within the Central American region, the rest of Latin America, the U.S. and Europe is essential. Central America's present advantage, with regard to the U.S. market at least, is derived from its low labor costs as well as from a growing season which does not coincide with that of the U.S. Likewise, U.S. production in certain lines is decreasing due to the labor-intensive cultivation required and higher labor costs involved. Through intensive market studies in the U.S. and Europe, it can be determined in what areas deficiencies currently exist, or are projected for the future. With such information, projects to supply those deficiencies can be promoted among already successful and potentially successful entrepreneurs.

LAAD must also have a means to collect relevant marketing information to better evaluate loan and investment requests. In some cases now, it appears to us that various projects have been funded based to a great degree on the information put forth by the business itself. LAAD would be in a stronger position regarding its financing function if it could independently research the market situation before acting upon a particular loan or investment in question, especially in a case requiring a large capital investment.

C. Expansion Into Other Areas

LAAD cited a number of projects which they might undertake in the Caribbean and northern tier of South America. Since a proper review of the projects is not possible without a visit to the areas in question, we therefore cannot ascertain the possible financial and economic results of LAAD's expansion into those areas. There may be advantages to such an expansion through the coordination of production and marketing activities with the Central American projects. The president of Taylor and Associates specifically stated that LAAD could be instrumental in his expansion plans for other Latin American republics.

One strong argument against the proposed expansion, the strongest we feel, is that LAAD has not, as yet, matured as an organization within a chosen area of activities. To expand into the Caribbean would require additional staff and a diversion of the talents of top management. To dilute its efforts from what is judged to be good forward momentum in Central America, could risk leaving LAAD-CA as a partially developed project. LAAD should bolster and continue its efforts in the Central American sphere until these show distinct promise of overall success.

APPENDIX A-I

MONTHLY STATUS REPORT No. 22

As of May 31, 1974

(US\$'000)

AID Loan No. 596-L-011
 For: LAAD
 Amount: \$6 Million
 Date Signed: October 26, 1971

Investment No.	Project Name, Description & Location	Interest Rate	Repayment Period	Grace Period	Date Approved by LAAD Loan & Investment Committee	Date Approved by AID	Date Agreement Signed	Total Investment	COMMITMENTS						DISBURSEMENTS		COMMENTS
									Equity	AID Funds Convertible Secured Loan	Secured Loan	Equity	LAAD-CA Funds Convertible Secured Loan	Secured Loan	AID Funds	LAAD-CA Funds	
1	Granjera Industrial, S.A. (GISA) Slaughtering and meat exporter Costa Rica	3 ^{1/2}	5	1	7/16/71	---	8/17/71	125.0	---	---	---	---	---	125.0	---	125.0	Repayment of \$55,555.56 received.
2	Empacadora Nicaraguense, S.A. Cattle processing and meat exporter Nicaragua	3-1/2 ^{1/2}	5	1-1/2	4/19/71	---	7/26/71	300.0	---	---	---	---	---	300.0	---	300.0	Repayment of \$300,000 received.
3	Horacio Villavicencio & Cia. Ltda. Cattle raising Guatemala	11	3	1-1/2	7/16/71	---	11/23/71	100.0	---	---	---	---	---	100.0	---	100.0	Repayment of \$75,600 received.
3-1	Villavicencio Brothers Cattle raising Guatemala	3-1/2 ^{1/2}	3	2	6/27/73	---	7/4/73	70.0 ^{4/}	---	---	---	---	---	70.0	---	70.0	Fully disbursed.
4	American Flower Corporation Flower producing and marketing Costa Rica	11	5	1	12/15/71	---	3/20/72	100.0	---	---	---	---	---	100.0	---	100.0	Repayment of \$25,000 received.
5	Hacienda Camarones de Costa Rica, S.A. (CAMARICA) Cattle raising Nicaragua	10	5	1	5/1/72	---	8/4/72	200.0	---	---	---	---	200.0	---	200.0	Repayment of \$22,323.23 received.	
6	Compañia Agrícola Industrial Central, S.A. (CAICISA) African palm oil plant Honduras	9	10	7	5/1/72	10/16/72	10/26/72	250.0	250.0	---	---	---	---	---	250.0	---	Fully disbursed, F.Y. December 31
7	Industrias Tropicales, S.A. (INTROSA) Processing and selling of SMR rubber Guatemala	9	5	1-1/2	6/19/72	8/1/72	7/18/72	100.0 ^{4/}	---	---	100.0	---	---	---	100.0	---	Repayment of \$12,500 received.
8	M. S. & Manos de Nicaragua, S.A. Marketing, warehousing, distribution & transportation of foodstuffs Nicaragua	9	5	1	7/20/72	8/30/72	10/7/72	71.4 ^{5/}	71.4	---	---	---	---	---	71.4	---	Fully disbursed.
9	Fomento Internacional, S.A. de C.V. Capital market studies, auditing, investments Honduras	9	4	1	7/20/72	9/6/72	10/17/72	150.0 ^{6/}	50.0	---	100.0	---	---	---	150.0	---	Repayment of \$14,265.71 received, F.Y. December 31.
10	American Flower Corporation Flower growing for export Costa Rica	9	5	1	7/29/72	10/6/72	10/5/72	112.5	---	---	112.5	---	---	---	112.5	---	Repayment of \$25,000 & prepayment of \$5,100 received.
11	Werner Ehlert, S.A. Flower growing for export Guatemala	9	4-1/2	1	7/19/72	10/4/72	3/7/73	100.0 ^{4/}	---	100.0	---	---	---	---	100.0	---	Repayment of \$12,500 received, F.Y. September 30.
12	Inversores y Valores Agro-industriales, S.A. (INVASA) Investment Bank Nicaragua	9	5	1	8/8/72	---	---	300.0 ^{2/}	50.0	---	250.0	---	---	---	---	---	Pending agreement regarding structuring of company.

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AID Loan No. 554-L-Q11
 Borrower: LAAD
 Amount: 16 Million
 Date Signed: October 28, 1971

Monthly Status Report No. 22
 Page 2

Invest- ment No.	Project Name, Description & Location	Interest Rate	Repay- ment Period	Grace Period	Date Ap- proved by LAAD Loan & Investment Committee	Date Ap- proved by AID	Date Agreement Signed	Total Invest- ment	COMMITMENTS						DISBURSEMENTS		COMMENTS	
									AID Funds			LAAD/CA Funds			AID Funds	LAAD/CA Funds		
									Equity	Secured Loan	Secured Loan	Equity	Secured Loan	Secured Loan				
13	Comodora del Norte, S.A. Feeding and fattening of cattle Honduras	9	5	1-1/2	8/8/72	---	---	250.0	---	250.0	---	---	---	---	---	---	---	Pending analysis of the capability of the company's management.
14	Astro Agricola, S.A. Agricultural services company Honduras	9	4-1/2	1/2	10/23/72	11/14/72	11/24/72	250.0	---	250.0	---	---	---	250.0	---	---	Repayment of \$15,552.56 received. F.Y. June 30.	
15	Molino Arrocero Chucotega, S.A. Processing of precooked rice Honduras	9	5	1	10/23/72	11/14/72	---	---	---	---	---	---	---	---	---	---	Cancelled by LAAD's Loan and Investment Committee on 2/11/74	
16	Industrias Porcinas de Nicaragua, S.A. (INDIPORCA) Pig breeding and fattening operation Nicaragua	9	5	1	10/23/72	---	---	400.0	300.0	---	100.0	---	---	---	---	---	---	Pending suitable know-how partner.
17	Industrias Anolencia, S.A. Vegetable growing and processing company Nicaragua	9	7	2	10/23/72	12/6/72	1/3/73	360.0	---	---	360.0	---	---	---	300.0	---	---	Fully disbursed.
17-1	Industrias Anolencia, S.A. Vegetable growing and processing company Nicaragua	9	7	2	11/27/73	2/8/74	---	40.0	---	---	40.0	---	---	---	40.0	---	---	Fully disbursed.
19	Arrocera Los Terrales y Cía. LtJa. Processing of precooked rice Guatemala	9	4-1/2	1	1/17/73	2/5/73	3/21/73	80.0	---	---	80.0	---	---	---	80.0	---	---	Repayment of \$10,000 received.
20	Pozuelo Picasso, S.A. Wood furniture manufacturing Costa Rica	9	5	1-1/2	1/25/73	6/12/73	7/6/73	400.0	200.0	---	200.0	---	---	---	400.0	---	---	Fully disbursed. F.Y. September 30.
21	SuperTiendas Frisa, S.A. Manufacturing and distribution of food Honduras	9	5	1-1/2	1/25/73	---	---	175.0	25.0	150.0	---	---	---	---	---	---	---	Pending submission to AID.
22	El Granjero, S.A. Processing and distribution of meats El Salvador	9	5	1-1/2	2/27/73	5/24/73	---	400.0	---	---	400.0	---	---	---	---	---	---	Disbursement pend- ing satisfactory arrangement for collateral.
23	Favis, S.A. Turkey grower El Salvador	9	5	2	3/20/73	4/12/73	6/5/73	160.0	---	---	160.0	---	---	---	160.0	---	---	Fully disbursed.
24	Taylor & Associates of Costa Rica, S.A. and Central American Meats, S.A. Slaughtering of cattle and marketing of beef Costa Rica	9	7	1	6/26/73	7/27/73	6/27/73	400.0	---	---	200.0	200.0	---	---	200.0	200.0	---	Fully disbursed. F.Y. July 31.

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AID Loan No. 525-L-011
 Borrower: LAAD
 Amount: \$5 Million
 Date Signed: October 26, 1971

Monthly Status Report No. 22
 Page 3

Investment No.	Project Name, Description & Location	Interest Rate	Repayment Period	Grace Period	Date Approved by LAAD Loan & Investment Committee	Date Approved by AID	Date Agreement Signed	Total Investment	COMMITMENTS						DISBURSEMENTS		COMMENTS
									Equity	Convertible Secured Loan	Secured Loan	Equity	Convertible Secured Loan	Secured Loan	AID Funds	LAAD-CA Funds	
25	Avícola Salvadoreña, S. A. Hatchling, fattening, slaughtering and marketing of chickens El Salvador	9	5	1-1/2	4/29/73	5/9/73	7/16/73	120.0	---	---	120.0	---	---	---	120.0	---	Fully disbursed.
26	Productos Sanitarios de Nicaragua, S. A. (PROSAN) Processing of cotton and adhesive products Nicaragua	9	7	5	6/12/73	6/20/73	6/29/73	200.0	200.0	---	---	---	---	---	200.0	---	Fully disbursed. F.Y. June 30.
27	Inversiones y Corretajes, S.A. (ICSA) Investment banking and other financial services El Salvador	9	7	2	6/1/73	---	---	250.0 ^{1/}	250.0	---	---	---	---	---	---	---	Pending disbursement.
28	Jardines Mil Flores, S. A. Production of F1 hybrid flower and vegetable seeds Guatemala	9	5	1	5/31/73	7/5/73	7/31/73	100.0 ^{1/}	---	---	100.0	---	---	---	100.0	---	Fully disbursed.
29	Proteora Agrícola Básico de Guatemala, S. A. Growing and packing of fresh fruits and vegetables Guatemala	9	5	3	8/24/73	12/11/73	10/9/73	60.0 ^{1/}	---	60.0	---	---	---	---	60.0	---	Fully disbursed. F.Y. June 30.
31	Finca Las Fuentes, S. A. Growing and distillation of cardamom and estronella oils Guatemala	9	5	1-1/2	8/24/73	9/11/73	9/7/73	100.0 ^{1/}	---	---	100.0	---	---	---	100.0	---	Fully disbursed.
32	Hielera Sequeira, S. A. Ice production Nicaragua	9	5	1	1/24/73	12/11/73	10/20/73	100.0 ^{1/}	---	---	100.0	---	---	---	100.0	---	Fully disbursed.
32-1	Hielera Sequeira, S. A. Ice production Nicaragua	9	5	1	2/11/74	2/14/74	2/28/74	100.0 ^{1/}	---	---	100.0	---	---	---	40.0	---	Second request for disbursement to be submitted to AID.
33	Compañía de Distribución Centroamericana, S. A. (COBICASA) Distribution of food and consumer goods Guatemala	9	5	1-1/2	10/18/73	---	---	100.0 ^{1/}	---	---	---	100.0	---	---	---	78.8	Partially disbursed. F.Y. December 31.
	American Flower Shippers Inc., S. A. Production and marketing of flowers Costa Rica	10-1/2	7	5	6/26/73	---	7/1/73	50.0 ^{1/}	---	---	---	50.0	---	---	---	50.0	Fully disbursed. F.Y. September 30.
34	Grandel, S. A. Processing of meat and other food products Guatemala	9	5	1	10/18/73	12/31/73	10/31/73	50.0 ^{1/}	---	50.0	---	---	---	---	50.0	---	Fully disbursed. F.Y. June 30.
34-1	Productos Alimenticios Grandel y Alpina, S. A. (GRANDALPINA) Meat processing and packaging Guatemala	9	5	1-3/4	4/18/74	4/22/74	---	50.0 ^{1/}	---	50.0	---	---	---	---	50.0	---	Fully disbursed. F.Y. June 30.

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AID Loan No. 556-L-011
 Borrower: LAAD
 Amount: 10 Million
 Date Signed: October 20, 1971

Monthly Status Report No. 22
 Page No. 4

Investment No.	Project Name, Description & Location	Interest Rate	Repayment Period	Grace Period	Date Approved by LAAD Loan & Investment Committee	Date Approved by AID	Date Agreement Signed	Total Investment	COMMITMENTS						DISBURSEMENTS		COMMENTS		
									Equity	AID Funds Secured Loan	Secured Loan	Equity	FUNDING FUNDS Convertible Secured Loan	Secured Loan	AID Funds	LAAD CA Funds			
35	Finao Verendoles Production of lime and iron grass oils and Santa Gertrudis beef cattle Guatemala	9	5	1-1/2	11/27/73	1/11/74	1/25/74	100.0	---	---	100.0	---	---	---	100.0	---	Fully disbursed.		
36	Atlantic Coast Chemical Company Production of wood rosin and by-products for the export market Nicaragua	9	5	1	2/11/74	2/21/74	4/26/74	100.0 ^{1/}	---	---	100.0	---	---	---	100.0	---	Fully disbursed.		
37	Public Housing Engineering Ltd. Architectural studies and surveys by multi-aerial aerial photography Guatemala	9	5	1-1/2	2/11/74	---	3/5/74	80.0	---	80.0	---	---	---	---	80.0	---	Request for approval submitted to AID, F.Y. December 31.		
38	Josefa Ojeda, S. A. Manufacturing of raw hides to crabs and fine leathers Costa Rica	9	5	1-1/2	2/11/74	4/16/74	4/24/74	200.0 ^{2/}	---	200.0	---	---	---	---	200.0	---	Fully disbursed, F.Y. September 30		
39	Lineas Aereas Nacionales, S. A. (LANSA) International and domestic air cargo Honduras	9	5	1	2/21/74	---	---	50.0 ^{1/}	---	50.0	---	---	---	---	---	41.4	Request for approval submitted to AID, F.Y. December 31.		
40	Los Pinos, S. A. Hatchery growing Guatemala	9	5	1-1/2	3/21/74	3/22/74	3/22/74	20.0 ^{1/}	---	20.0	---	---	---	---	15.0	---	Request for second disbursement to be submitted to AID December 31		
41	Frigorificos Nacionales, S. A. Commercial frozen and refrigerated food warehousing services Costa Rica	4	6-1/2	1	3/29/74	4/16/74	4/26/74	200.0	---	200.0	---	---	---	---	200.0	---	Fully disbursed, F.Y. July 31.		
42	Alimentos Congelados Montebello, S.A. (ALCONA) Freezing fruits and vegetables for the Central American market Guatemala	9	6	1-1/2	3/21/74	3/29/74	5/28/74	60.0 ^{1/}	---	60.0	---	---	---	---	60.0	---	Fully disbursed, F.Y. December 31.		
43	Granjera Chianina, S. A. Breeding Chianina and Charbray range hells Costa Rica	9	7	2	5/20/74	---	---	200.0	---	---	200.0	---	---	---	---	---	Pending disbursement.		
44	Compania Comercial e Industrial de Supermercados, S.A. and L. Ferrueller y Cia. Ltda. (La Sevillana) Procurement, distribution, warehousing and retailing of foodstuffs Guatemala	9	5	1-1/2	5/20/74	---	---	110.0	---	110.0	---	---	---	---	---	---	Pending disbursement, F.Y. June 30.		
45	International Wood Products, S.A. Production and export of semi-finished components for wooden doors, moldings and pallets Honduras	9	11	8	5/20/74	---	---	158.0	158.0	---	---	---	---	---	---	---	Pending disbursement, F.Y. December 31		
T O T A L S									7,451.9	1,554.4	1,630.0	3,022.5	350.0	200.0	695.0	3,768.9	1,345.2		
Projects under promotion or pending approval of LAAD Loan and Investment Committee: ^{10/}									4,820.0	1,450.0	750.0	2,590.0							

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AID Loan No. 506-L-011
 Borrower: LAAD
 Amount: 35 Million
 Date Signed: October 26, 1971

Monthly Status Report No. 22
 Page No. 5

SUMMARY OF INVESTMENTS APPROVED BY AID TO DATE

	<u>AMOUNT</u>	<u>PERCENT</u>
Equity .	771.4	18
Convertible Secured Loans	990.0	24
Secured Loans	<u>2,472.5</u>	<u>58</u>
	4,233.9	100

BREAKDOWN OF LAAD-CA CAPITAL

Share Certificate #1 Class "A"	640.0
Share Certificate #2 Class "A"	200.0
Share Certificate #3 Class "A"	70.0
Share Certificate #4 Class "A"	200.0
Share Certificate #5 Class "A"	100.0
Share Certificate #6 Class "A"	<u>50.0</u>
	1,260.0

Footnotes

- 1/ Over 180-day Eurodollar rate, adjustable every six months. Minimum interest payment 9.5%.
- 2/ Over 180-day Eurodollar rate, adjustable every six months. No minimum.
- 3/ Over 180-day U.S. prime rate, adjustable every six months. Maximum interest rate 12%. Minimum 10-1/2%.
- 4/ Approved under LAAD President's own authority.
- 5/ LAAD's Loan & Investment Committee recommended cancellation of \$173,600 of the loan, at their February 1974 meeting.
- 6/ There is an additional \$50,000 in swap of shares.
- 7/ There is an additional \$100,000 in swap of shares.
- 8/ Total amount approved \$500,000, but \$50,000 will probably be invested in debentures using LAAD-CA funds.
- 9/ Originally approved for \$300,000, but reduced to \$200,000 in March, 1974.
- 10/ A total of 19 projects.

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APPENDIX A - II

LAAD AND LAAD DE CENTROAMERICA S. A.
 AGRIBUSINESS INVESTMENT COMMITMENTS AS OF APRIL 30, 1974

(US\$'000)

	<u>No. of Projects</u>	<u>Authorized</u>	<u>Percent</u>	<u>Disbursed</u>	<u>Present Holding</u>
<u>BY COUNTRY:</u>					
Nicaragua	9	2,211.4	27.3	1,351.4	1,029.2
Guatemala	16	1,560.0	19.3	1,493.8	1,308.8
Costa Rica	7	1,337.5	16.5	1,337.5	1,231.9
Honduras	7	1,175.0	14.5	741.4	657.2
El Salvador	4	980.0	12.2	280.0	280.0
Panama	3	500.0	6.2	500.0	406.3
Mexico	2	325.0	4.0	325.0	174.4
United States	4	19.0	--	12.7	12.7
	<u>52</u>	<u>8,107.9</u>	<u>100.0</u>	<u>6,041.8</u>	<u>5,100.5</u>
<u>BY INDUSTRY:</u>					
Cattle and Beef Processing	8	1,445.0	17.8	1,195.0	767.2
Poultry	4	930.0	11.5	530.0	436.3
Capital Markets	3	900.0	11.1	200.0	171.4
Hogs	2	720.0	8.9	320.0	169.4
Food Processing	4	530.0	7.2	520.0	510.0
Food Distribution	5	526.4	6.5	350.2	350.2
Cut-Flowers and Seeds	6	476.5	5.9	475.2	412.7
Wood Products	3	400.0	5.0	400.0	400.0
Agricultural Services	2	330.0	4.0	330.0	274.4
Essential Oils	2	260.0	3.2	260.0	260.0
Fruits and Vegetables	3	85.0	1.0	75.0	75.0
Miscellaneous	10	1,455.0	17.9	1,386.4	1,273.9
	<u>52</u>	<u>8,107.9</u>	<u>100.0</u>	<u>6,041.8</u>	<u>5,100.5</u>

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APPENDIX A - III

LAAD DE CENTROAMERICA S. A.

BALANCE SHEET

(US\$ '000)

	<u>1973/74</u>	<u>1974/75</u>	<u>1975/76</u>	<u>1976/77</u>	<u>1977/78</u>	<u>1978/79</u>
ASSETS						
Current Assets						
Cash	30.0	50.0	70.0	90.0	120.0	140.0
Time Deposits	150.0	350.0	500.0	750.0	1050.0	1100.0
Interest & Other Receivables	25.0	70.0	95.0	145.0	205.0	235.0
Capital Gains	-	5.0	25.0	125.0	100.0	100.0
Total Current Assets	<u>205.0</u>	<u>475.0</u>	<u>690.0</u>	<u>1110.0</u>	<u>1475.0</u>	<u>1575.0</u>
Long Term Investments						
Equity Investments - Common	858.0	2258.0	2708.0	2958.0	3458.0	3708.0
Equity Investments - Preferred	779.4	1479.4	1779.4	2279.4	2779.4	3279.4
Long Term Convertible Loans	2318.0	3418.0	4210.0	5500.0	6570.0	7400.0
Long Term Conventional Loans	3233.1	3795.3	4574.9	4838.4	5213.4	4547.2
Less Reserve for Losses	99.0	173.5	221.5	308.5	400.5	459.0
Total Long Term Investments	<u>7089.5</u>	<u>10777.2</u>	<u>13050.8</u>	<u>15267.3</u>	<u>17620.3</u>	<u>18275.6</u>
Other Assets						
Inter-Company Stock Sub- scription Receivables	190.0	1500.0	1000.0	500.0	--	--
Office Equipment (less dep.)	2.7	2.6	2.5	2.4	2.3	2.1
Organizational Exp. (less amortization)	10.7	9.2	7.7	6.2	4.7	3.2
Total Other Assets	<u>203.4</u>	<u>1511.8</u>	<u>1010.2</u>	<u>508.6</u>	<u>7.0</u>	<u>5.3</u>
TOTAL ASSETS	7497.9	12764.0	14751.0	16885.9	19102.3	19855.9

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	<u>1973/74</u>	<u>1974/75</u>	<u>1975/76</u>	<u>1976/77</u>	<u>1977/78</u>	<u>1978/79</u>
LIABILITIES AND STOCKHOLDERS EQUITY						
Current Liabilities						
Accrued Interest Payable	100.4	196.7	224.0	252.0	280.0	360.0
Total Current Liabilities	<u>100.4</u>	<u>196.7</u>	<u>224.0</u>	<u>252.0</u>	<u>280.0</u>	<u>360.0</u>
Long Term Liabilities						
Loan Payable to AID	5337.9	7500.0	9000.0	10500.0	12000.0	12000.0
Total Long Term Liabilities	<u>5337.9</u>	<u>7500.0</u>	<u>9000.0</u>	<u>10500.0</u>	<u>12000.0</u>	<u>12000.0</u>
Stockholders Equity						
LAAD-CA Class "A" Common Stock	1810.0	2500.0	3000.0	35000.0	4000.0	4000.0
Common Stock Subscribed	190.0	1500.0	1000.0	500.0	--	--
Central Americans	50.0	1000.0	1250.0	1500.0	1750.0	2000.0
Total Common Stock	<u>2050.0</u>	<u>5000.0</u>	<u>5250.0</u>	<u>5500.0</u>	<u>5750.0</u>	<u>6000.0</u>
Retained Earnings	9.6	67.3	277.0	633.9	1072.3	1495.9
Net Worth	2059.6	5067.3	5527.0	6133.9	6822.3	7495.9
 TOTAL LIABILITIES AND NET WORTH	 7497.9	 12764.0	 14751.0	 16885.9	 19102.3	 19855.9

LAAD DE CENTROAMERICA S. A.

CASH FLOW

(US\$ '000)

	<u>1973/74</u>	<u>1974/75</u>	<u>1975/76</u>	<u>1976/77</u>	<u>1977/78</u>	<u>1978/79</u>
INFLOW						
Equity LAAD	700.0	690.0	500.0	500.0	500.0	--
Equity (Central America)	--	950.0	250.0	250.0	250.0	250.0
AID Loan	2644.0	2162.1	1500.0	1500.0	1500.0	--
Net Operating Income	130.9	133.8	259.3	445.5	532.0	483.7
Loan Amortization	334.5	711.4	1550.5	1855.8	2099.3	2190.0
Capital Gains	--	5.0	25.0	125.0	100.0	100.0
Total Inflow	3809.4	4652.3	4084.8	4676.3	4981.3	3023.7
OUTFLOW						
Time Deposits	150.0	200.0	150.0	250.0	300.0	50.0
Equity - Common Shares	608.0	1400.0	450.0	250.0	500.0	250.0
Equity - Preferred Shares	158.0	700.0	300.0	500.0	500.0	500.0
Agribusiness Loans	2838.4	2287.3	3139.8	3606.3	3591.3	2173.7
Interest Receivable	25.0	45.0	25.0	50.0	60.0	30.0
Total Outflow	3779.4	4632.3	4064.8	4656.3	4951.3	3003.7
Cash Surplus	30.0	20.0	20.0	20.0	30.0	20.0
Accumulated Cash Surplus		50.0	70.0	90.0	120.0	140.0

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LAAD DE CENTROAMERICA S. A.

PROFIT AND LOSS STATEMENT

(US\$ '000)

INCOME	<u>1973/74</u>	<u>1974/75</u>	<u>1975/76</u>	<u>1976/77</u>	<u>1977/78</u>	<u>1978/79</u>
Interest earned and dividends on agribusiness loans and equity	401.3	595.5	753.3	882.5	1037.0	1095.7
Capital Gains		5.0	25.0	125.0	100.0	100.0
Other	20.0	30.0	30.0	40.0	50.0	50.0
Total Income	<u>421.3</u>	<u>630.5</u>	<u>808.3</u>	<u>1047.5</u>	<u>1187.0</u>	<u>1245.7</u>
EXPENSES						
Repayment AID/Loan Interest	100.4	196.7	224.0	252.0	280.0	360.0
OPERATING PROFIT	320.9	433.8	584.3	795.5	907.0	883.7
OPERATING EXPENSES						
Salaries	140.0	184.0	200.0	215.0	230.0	245.0
Professional Services	15.0	25.0	30.0	30.0	35.0	35.0
Office Expenses	6.0	15.0	15.0	15.0	15.0	15.0
Travel and Communications	14.0	50.0	50.0	55.0	60.0	70.0
Public Relations	2.0	6.0	10.0	10.0	10.0	10.0
Other Expenses	13.0	20.0	20.0	25.0	25.0	25.0
Total Operating Expenses	<u>190.0</u>	<u>300.0</u>	<u>325.0</u>	<u>350.0</u>	<u>375.0</u>	<u>400.0</u>
NET OPERATING INCOME	130.9	133.8	259.3	445.5	532.0	483.7
PROVISIONS AND NON-OPERATING EXP						
Provision for Losses	66.9	74.5	48.0	87.0	92.0	58.5
Amortization of Organizational Expenses	1.6	1.6	1.6	1.6	1.6	1.6
NET INCOME	62.4	57.7	209.7	356.9	438.4	423.6

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ASSUMPTIONS TO PROJECTIONS

1. The proceeds of the present \$6.0 million AID loan and the \$2.0 million in capital committed by LAAD to LAAD-CA will have been totally disbursed by April 30, 1975. (Though we actually hope to disburse earlier, it is not to our advantage to project that we will for the purposes of this exercise).
2. \$7.0 million of the LAAD capital contribution will have been used to purchase common shares of agribusinesses by April 30, 1975. (We are going to have to try to come through with this. It would be inconsistent to project we won't since we must argue that we are making an all out effort to do so. Our real commitment is to try. Annex I states that we expect to achieve this goal, or that AID expects us to. It is ambiguous in the latter sense but it seems clear enough that we should not and need not project that we will fail to comply with expectations. It is possible that we might comply or at least come close to doing so with the strong possibility of the Atchemco share purchase. It would take much beyond that \$400,000 deal and the \$200,000 Taylor holding to reach "approximately" \$7.0 million.
3. \$6.0 of the second AID loan to LAAD will be assigned to LAAD-CA. The loan will be for 20 years including 5 years grace on principal payments, at an interest rate of 3%. Disbursement on the portion assigned to LAAD-CA will begin May 1, 1975.

4. ~~LAAD~~ will increase its investment in LAAD-^{CA} from \$2.0 million to ~~\$4.0 million~~. The two million capital increase will pay an average 2.5% return to LAAD.

5. Approximately \$4.0 million of this amount is expected to be used for long term financing with equity features (long term is defined as 5 years and beyond and medium term as three up to five years). At least \$1.0 million of LAAD's increased capital contribution to LAAD-CA will be used to buy common shares.

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6. LAAD-CA will ^{offer and make a strong effort to place} place its shares in Central America, as follows:

<u>1974/75</u>	<u>1975/76</u>	<u>1976/77</u>	<u>1977/78</u>	<u>1978/79</u>
\$950,000	\$500,000	\$500,000	\$500,000	\$500,000
	250,000	250,000	250,000	250,000

These shares will pay an average 2.5% return to their bearers. The proceeds of these placements will be used primarily for the purchase of equities. A sufficient portion will be directed to preferred shares and loans to provide to a return of 2.5% to cover the cost of this money. (Our assumption should be, as stated in paragraph 7 below, no dividends or capital gains for five years on common shares. We need not be pinned down to a commitment that these monies will, in fact, be used so lavishly for common share purchases since we cannot logically commit that we will be able to sell shares to Central Americans with an average return of 2.5%. The fact is there would be no market at all. We must make a big splash in terms of offering the shares, however, and must ^{begin to} do so within a couple of months, prior to presentation of the Loan Document. We should get started with this in April or May.

7. AID funds and LAAD's capital contribution to LAAD-CA will be disbursed as follows:

	<u>1974/75</u>	<u>1975/76</u>	<u>1976/77</u>	<u>1977/78</u>
Second AID Loan	1.5	1.5	1.5	1.5
LAAD increase of LAAD-CA capital	.5	.5	.5	.5

8. ~~No dividends or capital gains will be earned on common share purchases by LAAD-CA until the end of the fifth year after they are purchased~~ (Taylor and Atchemco (if we get in it) should be shown as modest exceptions in terms of dividend earnings). Volume of placement of shares (expressed at purchase price) from LAAD-CA's portfolio and capital gains (over purchase price) on these placements are estimated to be as follows. (These estimates relate to shares purchased for the five year period beginning January 1, 1972).

	<u>1973/74</u>	^{5/1/75} <u>1974/75</u>	<u>1975/76</u>	<u>1976/77</u>	<u>1977/78</u>	<u>1978/79-</u>
Volume of placement	250,000	500,000	750,000	1,000,000	1,000,000	
Capital gain	\$5,000	\$25,000	\$125,000	\$100,000	\$100,000	

The common share^S held in LAAD-CA's portfolio now and those which will be acquired over the remainder of the present fiscal year will not have increased sufficiently in value to provide for substantial capital gains. The companies they represent will not have developed to a point permitting them to enjoy a market based on present and predicted dividend payment^S. Marketability of shares in America is based only on dividend

9. Dividends on common shares acquired by LAAD-CA over the five year period beginning January 1, 1972 are projected at \$25,000 in fiscal 1975 and at \$50,000 each year thereafter. This includes only Taylor and Associates and American Flower Shippers. Alchemco would raise this figure should we buy shares in the company. We can assume that convertibility features on loans will be exercised only for the purpose of placing the shares and that convertible preferreds will be sold as such rather than converting them prior to placement.
10. Operating Expenses for fiscal 1974/75 will increase by an estimate 100% over the fiscal 1973 level and are projected to increase at a rate of 20% annually over this level. These assumptions are based on the following

considerations, itemized according to specific expense categories.

- a) Salaries and Employee Benefits. LAAD-CA salaries are below those paid for comparable effort, competence and production by other financial institutions. Merit increases and equalization of salaries to combat inflation must be paid in fiscal 1975 in order to maintain a staff which will be required to perform at a still higher level than it has in the past. Two new additions to the professional staff, one at the managerial level, are contemplated for fiscal 1975 and at least one addition to the secretarial staff. It is not presently possible to retain an experienced, bilingual Central American investment banker possessing the requisite personal characteristics and capacity to produce for less than \$20,000 a year. The second new staff member will be a financial analyst who need not possess managerial capabilities, though he must be capable of developing them. Such a man can be obtained for \$12,000 to \$14,000 a year now. A year from now these new staff numbers are not likely to be available for less than \$25,000 and \$16,000 a year, respectively. In order to retain present professionals and attract new ones LAAD-CA must offer fringe benefits; virtually none are offered now.

The volume of work and responsibility required from staff will increase by a multiple of the contemplated additional cost of this staff. Emphasis, to date, has been on project development and implementation. The demand on LAAD-CA's staff to develop and implement projects will continue at the present level when financial resources are doubled. In the meantime project supervision will require increasing attention. Supervision should account for around half of the time of LAAD-CA's staff. An unquantifiable but predictably large amount of time will be required to deal with problem projects. Problems call mainly on the time of senior staff. This latter demand on LAAD-CA's personnel can only be reduced by substantial supervision permitting us to identify and rectify problems before they become critical. Once they are, and some constantly will be no matter how much time is devoted to supervision, the only alternative to costly "turn around" efforts will be write offs which we will not be financially strong enough to sustain in any volume.

Salaries and Employees Benefits for fiscal 1975 can be projected at \$200,000.

- b) Travel and Communications. This category of expense is estimated to rise in fiscal 1975 by 100% over fiscal 1974, for most of the same reasons set forth above. Travel for supervision purposes can often be combined with new project development efforts. Supervision

does not require an extraordinary increase in cable and long distance phone communication either. Dealing with problem projects will require very high travel and communication expenses, however. The cost of dealing with one problem project will usually at least equal the combined communications and travel cost of project supervision and new project development together, over an equal period of time.

As is the case of personnel, the per unit cost of communications will have increased in fiscal 1975, as rates for these services rise. Cost of air travel has been increasing especially rapidly.

Travel and communications expenses are estimated to be at least \$50,000 in fiscal 1975, more than 100% over the fiscal 1973 level.

- c) Professional Services. The cost of legal services for fiscal 1975 will increase by about 100% over the fiscal 1973 figure, primarily to cover the cost of a major share placement effort in Central America. The cost of legal services provided to LAAD-CA in connection with its normal activities must increase also. We have been paying a very modest retainer for legal assistance and demands on our lawyer will increase substantially, especially for assistance in connection with problem projects. These latter costs cannot be

passed on to a client and will represent the largest part of LAAD-CA continuing requirements for legal services.

Technical services, beyond those provided by LAAD's shareholders, will be required to a much larger extent.

Again, these will be directed mainly towards problem projects. The second greatest demand for external technical services will result from an increasing tendency on LAAD-CA's part to initiate new activities rather than depending on others to sponsor projects.

LAAD-CA's shareholders will continue to provide the major part of the technical assistance required but this expense category in fiscal 1975 will still be more than doubled over the fiscal 1973 level.

An amount of \$25,000 is projected.

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d) Office Expenses. LAAD-CA's office space is satisfactory for its present staff but additional staff and increasing rental costs will require a minimum 100% increase in rental budget over the fiscal 1973 level. Other office expenses will at least double.

Fiscal 1975 budget should be \$15,000.

e) Public Relations. Expenses under this category have been low thus far. LAAD-CA has been publicised primarily through its performance. In fiscal 1975 the public relations budget will increase primarily to support an effort to place LAAD-CA's shares in Central America.

The total budget should be \$6,000, four times the fiscal 1973 figure.

f) Other. This miscellaneous category should be increased tenfold as a contingency against further increases in the five categories set forth above, for a total amount of ~~\$10,000.~~ ^{20,000}

Total estimated expenses for the fiscal year 1975 come to \$301,000, (rounded out to \$300,000). Operating expenses are projected to increase by increments of \$25,000 (25% of the 1973 base year) each year after fiscal 1975, as follows:

1973/74	<u>1974/75</u>	<u>1975/76</u>	<u>1976/77</u>	<u>1977/78</u>	<u>1978/79</u>
1970?	\$300,000	\$325,000	\$350,000	\$375,000	\$400,000

11. LAAD-CA will have no sources of funds other than the AID loans and equity capital set forth above. It could not obtain commercial loans to finance projects which would be eligible under its present criteria and this criteria will not be altered to provide for a less developmental portfolio. LAAD and LAAD-CA contemplate being able to sustain their operations without altering this policy and without further recourse to concessional borrowings after the second loan is provided by AID.
12. Income. LAAD-CA income will continue to be derived primarily from interest and preferred share dividends.

FINANCIAL STATEMENTS, OCTOBER 31, 1973:

LAAD

and

LAAD-CA

Consolidated Financial Statements

Consolidated Balance Sheets

Assets	October 31,	
	1973	1972*
Cash at banks:		
Current accounts	\$ 29,028	\$ 23,220
Time deposits	355,675	334,070
	<u>384,703</u>	<u>357,290</u>
Foreign investments, including \$996,019 (1972-\$3,660,706)		
maturing within one year:		
Loans	4,106,532	1,498,917
Equity investments at cost	929,531	58,100
Short term commercial paper at cost, which approximates market	299,997	3,400,701
	<u>5,336,160</u>	<u>4,957,718</u>
Less: Allowance for possible losses (Note 1)	(181,171)	(149,525)
	<u>5,155,021</u>	<u>4,808,193</u>
Other assets (Note 2)	193,079	238,972
	<u>\$5,732,803</u>	<u>\$5,404,455</u>
Liabilities and Stockholders' Equity		
Short-term bank loans (Note 3)	\$ 93,115	\$2,532,200
Notes payable (Note 5)	200,000	
Accrued interest	25,153	86,354
Other current liabilities	583	15,029
Loans payable to Agency for International Development (Note 4)	2,693,928	150,000
Minority interest in consolidated subsidiary (Note 5)	46,722	
Total liabilities	<u>3,059,501</u>	<u>2,763,583</u>
Stockholders' equity (Note 5):		
Common stock—\$5,000 par value, 3,000 shares authorized, 520 shares issued and outstanding	2,600,000	2,600,000
Retained earnings (Note 4)	73,302	20,872
	<u>2,673,302</u>	<u>2,620,872</u>
Commitments (Note 7)	—	—
Reclassified from prior years	—	—
	<u>\$5,732,803</u>	<u>\$5,404,455</u>

Consolidated Statements of Operations and Retained Earnings

	(Note 1)	Year ended October 31,	
		1973	1972
Income:			
Interest earned		\$403,305	\$507,525
Dividends earned		38,124	
Gain on foreign exchange (Note 1)		5,855	9,451
Other		6,423	2,400
Total income		<u>453,707</u>	<u>519,376</u>
Interest expense		106,339	260,844
		<u>347,368</u>	<u>258,532</u>
Operating expenses:			
Salaries and employee benefits (Note 6)		159,037	146,513
Professional services		39,059	64,985
Travel and communications		29,255	35,200
Office expense		21,857	19,725
Public relations		2,756	3,265
Other expenses		3,351	4,985
Taxes on income (Note 1)		2,131	
Total operating expenses		<u>257,446</u>	<u>274,678</u>
Income (loss) before other expenses and extraordinary charge		89,922	(16,146)
Other expenses:			
Provision for possible losses (Note 1)		31,614	141,025
Depreciation and amortization (Note 1)		9,156	8,526
Minority interest in consolidated subsidiary (Note 5)		283	
		<u>41,058</u>	<u>149,551</u>
Income (loss) before extraordinary charge		48,864	(165,697)
Extraordinary charge (Note 6)			(32,034)
Net income (loss) for the year		<u>48,864</u>	<u>(197,731)</u>
Retained earnings, beginning of year		20,872	218,553
Deficit allocated to minority interest share of LAAD-CA (Note 5)		3,566	
Retained earnings, end of year		<u>\$ 73,302</u>	<u>\$ 20,872</u>
Earnings (loss) per share of common stock (Note 1):			
Income (loss) before extraordinary charge		\$92.90	(\$338.85)
Extraordinary charge			(65.61)
Net income (loss) for the year		<u>\$92.90</u>	<u>(\$404.46)</u>

Consolidated Statements of Changes in Financial Position

	Year ended October 31,	
	1973	1972*
Financial resources were provided by:		
Net income	\$ 48,864	
Add non-cash items:		
Depreciation and amortization	9,156	
Provision for possible losses	31,614	
Minority interest in net income of consolidated subsidiary	288	
Cash provided by operations	89,922	
Proceeds from AID loan	2,543,923	\$ 150,000
Sale of short-term commercial paper	3,100,704	3,530,931
Proceeds from sale of LAAD common shares	200,000	200,000
Issuance of shares in consolidated subsidiary	50,000	
Loans repaid during the year	300,000	
Indebtedness assumed in repurchase of common shares	200,000	
Decrease in: Other assets	36,737	139,995
Time deposits		95,100
Increase in: Other current liabilities		3,843
	<u>\$6,521,291</u>	<u>\$4,119,819</u>
Financial resources were used for:		
Loss before extraordinary charge		\$ 165,697
Deduct non-cash items:		
Depreciation and amortization		(8,526)
Provision for possible losses		(141,025)
Cash used for operations		16,146
Cash used for extraordinary charge		32,084
Reduction in short-term bank loans	\$2,439,085	2,785,751
Disbursements of loans	2,907,715	1,073,917
Investments in equity securities	871,431	58,100
Purchase of common stock of LAAD	200,000	
Increase in: Cash in current accounts	5,808	65,163
Time deposits	21,605	
Decrease in: Accrued interest payable	61,201	88,658
Other current liabilities	14,446	
	<u>\$6,521,291</u>	<u>\$4,119,819</u>

*Reclassified from prior years.

Notes to Consolidated
Financial Statements
October 31, 1973 and 1972

NOTE 1—Accounting Policies:

A summary of the major accounting policies followed by the Company in the preparation of the accompanying financial statements is present below:

Principles of consolidation

The accompanying consolidated financial statements include the accounts of Latin American Agribusiness Development Corporation S.A. (LAAD) and its subsidiary, LAAD de Centroamerica S.A. (LAAD-CA). All material intercompany accounts and transactions have been eliminated in consolidation. Equity investments in foreign companies are carried at cost since less than 20% of the voting stock is owned.

LAAD was incorporated in the Republic of Panama on January 26, 1970 to make investments in private enterprises located in countries in the Western Hemisphere, excluding the United States and Canada. The objective of its investments is to improve the production, distribution and marketing of agriculture-based products.

LAAD-CA was incorporated in the Republic of Panama on November 9, 1971 to make similar investments in enterprises located in Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica. LAAD has purchased \$1,110,000 of Class A common stock in LAAD-CA and subscribed for the additional \$890,000 of authorized Class A common stock.

Organization expenses

Organization expenses (see Note 2) of LAAD are being amortized over a ten-year period which commenced November 1, 1970. Organization expenses of LAAD-CA are being amortized over a ten-year period which commenced January 1, 1972.

Furniture and fixtures

Provision for depreciation of furniture and fixtures (see Note 2) has been computed on the straight-line method over the estimated useful lives of the assets (ten years). Maintenance and repairs are charged to income currently, while renewals and betterments are capitalized. Upon the retirement or other disposal of fixed assets, the cost thereof and applicable depreciation are removed from the respective accounts and any gains or losses are included in income.

Foreign exchange

Certain of the companies' short-term commercial paper investments have been made in currencies other than U.S. dollars and have been translated into U.S. dollars on the basis of exchange rates prevailing at the date of transactions. Assuming that such short-term commercial paper had been translated at the rates in effect on October 31, 1973, investments would increase by \$40,000 at that date. Unrealized gains or losses at October 31, 1972 were not significant.

Provision for possible losses

It is the companies' policy to provide a general reserve for possible losses at 2% on each foreign investment; this reserve is accrued over a period of twelve (12) months from the date of disbursement. In addition, specific reserves for possible losses are provided for any foreign investment which is deemed by the Board of Directors to have had a permanent impairment in value.

Taxes on income

Panamanian income taxes are provided only for taxable interest income from LAAD's loans to Panamanian companies. No provision for U.S. federal income taxes has been provided because the companies have no U.S. sources of income nor income which is effectively connected with the conduct of trade or business within the United States.

Earnings (loss) per share of common stock

The consolidated earnings (loss) per share of common stock is based on the weighted average number of shares of LAAD \$5,000 par value common stock outstanding during the year (526 in 1973 and 489 in 1972).

NOTE 2—Other Assets:

Other assets consist of the following:

	1973	1972
Accrued interest due within one year	\$ 74,613	\$143,773
Accrued dividends due within one year	24,312	
Accounts receivable and other current assets	26,011	20,105
Furniture and fixtures, at cost less accumulated depreciation of \$1,498 (1972-\$735) (Note 1)	8,302	6,944
Organization expenses, at cost less accumulated amortization of \$23,162 (1972-\$14,883) (Note 1)	59,841	63,145
	<u>\$193,079</u>	<u>\$238,972</u>

NOTE 3—Short-term Bank Loan:

The short-term bank loan at October 31, 1973 was paid at maturity on December 12, 1973 with interest at 7% per annum. The loan was secured by short-term commercial paper with a value at maturity of \$100,000.

NOTE 4—Loan Payable to Agency for International Development:

On October 26, 1971 LAAD entered into a loan agreement with the Agency for International Development (AID) whereby AID agreed to lend LAAD or LAAD-CA at 3% interest per annum, payable semiannually commencing in February 1973, an amount not to exceed in the aggregate \$0,000,000 to be drawn down by LAAD-CA before April 30, 1975. As of October 31, 1973, a total of \$2,693,923 (\$150,000 in 1972) was received by LAAD-CA on this loan. The total loans drawn down are repayable in thirty-one equal semiannual installments commencing in August 1977.

The loan agreement contains various restrictions including restrictions on dividends, long- and short-term indebtedness and on the uses which can be made of the AID loan funds. LAAD and LAAD-CA have agreed to use these proceeds to finance agribusiness projects in Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica. LAAD has agreed to provide its own capital towards these

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EXHIBIT III

ESTIMATED FOREIGN EXCHANGE EARNINGS BY PROJECT COMPANIES VISITED
(Uses Last Complete Operating Year Data)

EXHIBIT III

Project	C O M M O D I T I E S							SERVICES	CAPITAL		Total Exchange Earnings
	Total Sales	Export Percentage	Total Exports	Total Purchases	Import Percentage	Total Imports	Exports Less Imports	Total	Foreign Loans and Equity	Foreign Dividends Interest, Royalties	
CODICASA	\$ 1,985,029	0	0	\$ 1,667,947	80	\$ 1,334,357	\$(1,334,357)	0	\$ 100,000	0	\$(1,234,357)
INTROSA	770,974	74	\$ 570,520	655,208	2	13,304	557,216	0	0	\$ 21,500	535,716
Gran Alpina	343,443	0	0	173,104	10	17,310	(17,310)	0	50,000	0	32,690
Las Flores	540,934	95	513,087	364,993	35	129,021	384,865	0	100,000	-	484,865
ALCOSA	40,000 ^{1/}	30	12,000	70,000 ^{1/}	57	39,900	(27,900)	0	60,000	0	32,100
Los Pinos	41,600 ^{1/}	20	8,320	11,700 ^{1/}	43	5,000	3,320	0	20,000	0	23,320
LANSA	-	-	-	137,100	45	61,695	(61,695)	\$ 70,800 ^{2/}	50,000	0	59,105
CAICESA	0	0	0	314,700	100	314,700	(314,700)	0	0	0	(314,700)
Hielera Sequoia	211,278	0	0	48,169	0	0	0	0	0	0	0
AMOLONCA	551,808	100	551,808	266,517	0	0	551,808	0	300,000	12,663	839,145
PROSAN	1,120,000 ^{3/}	72	806,400	512,400	80	409,920	396,480	0	0	51,300	345,180
Camisa	4,327,037	100	4,327,037	4,660,072	10	466,007	3,861,030	0	400,000	0	4,261,030
Pozuelo Picasso	582,859	50	291,430	4,857,080	2	78,612	212,818	0	400,000	0	612,818
American Flower	421,719	75	316,289	109,879	6	6,642	309,647	0	0	28,100	281,547
Pavos, S.A.	273,793	30	82,138	135,077	60	81,046	1,091	0	160,000	0	161,091
Avicola Salvadorena	459,590	0	0	107,840	1	1,078	(1,078)	0	120,000	0	118,922
TOTALS	<u>\$11,699,979</u>		<u>\$ 7,479,029</u>	<u>\$14,101,696</u>		<u>\$ 2,958,592</u>	<u>\$ 4,521,236</u>	<u>\$ 70,800</u>	<u>\$ 1,769,000</u>	<u>\$ 113,563</u>	<u>\$16,232,473</u>

^{1/} Estimated.^{2/} \$100,000 total sales, approximately 12.6 percent (or \$70,800) of which were services sold to parties outside Honduras.^{3/} Financial data available for six months only -- estimated typical operating year.

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agribusiness projects at a rate of not less than \$1 for each \$3 of AID funds. Also, it is agreed that these financings will be made with repayment terms of not less than three years or with interest not in excess of 9% per annum.

NOTE 5 - Stockholders' Equity:

Changes in the common stock of LAAD for the year ended October 31, 1973 and 1972 are summarized as follows:

	Shares Issued	Par Value
Balance at October 31, 1971	480	\$2,400,000
Sale of common shares to a private investor	40	200,000
Balance October 31, 1972	520	2,600,000
Sale of common stock to a private investor	40	200,000
Repurchase of common shares	(40)	(200,000)
Balance at October 31, 1973	<u>520</u>	<u>\$2,600,000</u>

On October 31, 1973 the company repurchased 40 shares at par value from a stockholder in exchange for an unsecured promissory note of \$200,000, payable on October 31, 1974. LAAD also has the option to pay the note over a five year term at \$40,000 per year with interest at a rate equal to one percent per year above the prime rate of interest being charged on October 31 of each year. The note is payable on demand if at any time the net worth of the company exceeds \$3,600,000. It is the company's intention to retire the treasury shares and prepay this note prior to October 31, 1974. For financial statement purposes, these 40 treasury shares are reflected as having been retired at October 31, 1973.

On January 26, 1973, the Board of Directors of LAAD authorized an amendment to LAAD-CA's Articles of Incorporation which provided for a new class of common stock that will be sold to Central American investors. This common stock, designated as Class B, is identical to the original common stock of the company (now designated as Class A) except that, among other things, the par value of the 10,000 shares authorized is \$100 and each share Class A common stock is entitled to ten times as many votes as each share of Class B common stock.

On April 23, 1973, 500 shares of Class B common stock with a par value of \$50,000 were issued to a company in Honduras. Minority interest in consolidated subsidiaries in the accompanying financial statements at October 31, 1973 comprised the following:

	Amount
Issuance of 500 shares of Class B common stock	\$50,000
Less: Minority interest share of accumulated deficit at acquisition	(3,566)
Minority interest share of net book value at acquisition	46,434
Plus: Minority interest share of net income for the period from acquisition to October 31, 1973	268
	<u>\$46,722</u>

NOTE 6 - Employment Agreements:

LAAD had an agreement with its previous president that provided for \$5,000 of deferred compensation to be set aside each year for him and for severance to be paid to him in the event of his termination of employment. This previous president resigned in April 1972 and was paid \$32,034 for severance pay. The balance of deferred compensation payable to him at October 31, 1972 of \$11,667 was paid to him in January 1973. LAAD also has an agreement with its current president providing, among other things, for his employment for an indefinite period of time.

NOTE 7 - Commitments:

At October 31, 1973 the Investment and Loan Committee of LAAD and LAAD-CA had approved but not disbursed additional foreign loans of \$1,672,000 and additional equity investments in foreign companies of \$773,571.

LAAD leases office space under a long-term lease which expires on August 31, 1977. The company's aggregate non-cancellable rental commitments as of October 31, 1973 is approximately \$28,000 payable as follows:

1974	\$ 7,300
1975	7,300
1976	7,300
1977	6,100
	<u>\$28,000</u>

Rental expenses for the years ended October 31, 1973 and 1972 were \$10,962 and \$11,872, respectively, which includes the rental of office spaces in Guatemala and Mexico City that are not under long-term lease agreements.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT

To the Board of Directors and Stockholders of Latin American Agribusiness Development Corporation S.A.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and retained earnings and of changes in financial position present fairly the financial position of Latin American Agribusiness Development Corporation S.A. and its subsidiary at October 31, 1973 and 1972, the results of their operations and the changes in financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Miami, Florida
December 13, 1973

Price Waterhouse & Co.
PRICE WATERHOUSE & CO.

LAAD DE CENTROAMERICA S.A.

FINANCIAL STATEMENTS

OCTOBER 31, 1973

Price
Waterhouse & Co.
Certified Public Accountants

320 BISCAYNE BOULEVARD, P.O. BOX 1631 MIAMI, FLORIDA 33101
305-358-3000

December 19, 1973

To the Board of Directors of
LAAD de Centroamerica S.A.

In our opinion, the accompanying balance sheet and the related statements of income and accumulated deficit and of changes in financial position present fairly the financial position of LAAD de Centroamerica S.A. at October 31, 1973, the results of its operations and the changes in financial position for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse & Co.

IAAD OF GEORGIA, INC. S.A.

BALANCE SHEET

OCTOBER 31, 1973

Assets

Cash at banks:		
Current accounts	\$ 5,656	
Time deposits	<u>228,812</u>	
		\$ 234,468
Foreign investments, including \$327,131 maturing within one year (Note 1):		
Loans	2,763,054	
Equity investments at cost	<u>871,429</u>	
	3,634,483	
Less: Allowance for possible losses (Note 1)	<u>(41,533)</u>	
		3,592,950
Subscription receivable from IAAD (Notes 1 and 4)		890,000
Other assets (Note 2)		<u>84,677</u>
		<u>\$4,807,095</u>

Liabilities and Stockholders' Equity

Accounts payable to IAAD		\$ 89,455
Accrued interest		20,953
Other current liabilities		583
Loans payable to Agency for International Development (Note 3)		<u>2,692,928</u>
Total liabilities		2,804,919
Stockholders' equity (Note 4):-		
Common stock:		
Class A - \$1,000 par value, 2,000 shares authorized, 1,110 shares issued and outstanding	\$1,110,000	
890 shares subscribed	<u>890,000</u>	
	2,000,000	
Class B - \$100 par value, 10,000 shares authorized, 500 shares issued and outstanding	<u>50,000</u>	
	2,050,000	
Deficit	<u>(52,824)</u>	
Total stockholders' equity		1,997,176
Commitments (Note 5)		
		<u>\$4,807,095</u>

LEON BROS. CORP. - SUCCESSORS, S.A.
STATEMENT OF EARNINGS AND ACCUMULATED DEFICIT
FOR THE YEAR ENDING OCTOBER 31, 1973

Income:		
Interest earned	\$169,556	
Dividends earned	38,124	
Other	<u>5,345</u>	
		\$213,025
Interest expense		<u>46,672</u>
		166,353
Operating expenses:		
Salaries and employee benefits	95,032	
Travel and communication	20,005	
Professional services	12,656	
Office expense	7,165	
Public relations	1,550	
Other	<u>870</u>	
		<u>137,278</u>
Income before other expenses		29,075
Other expenses:		
Provision for possible losses (Note 1)	26,034	
Depreciation and amortization (Note 1)	<u>1,808</u>	
		<u>27,842</u>
Net income for the year		1,233
Deficit, beginning of year		(54,057)
Deficit, end of year		<u>(\$ 52,824)</u>
Earnings per share of common stock (Note 1):		
Per Class A common share	<u>\$1.60</u>	
Per Class B common share	<u>\$.16</u>	

LAAD FINANCIAL CORPORATION
STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 1973

Financial resources were provided by:-

Net income	\$ 1,233
Add non-cash items:	
Depreciation and amortization	1,808
Provision for possible losses	26,034
Cash provided by operations	29,075
Proceeds from AID loan	2,543,928
Loans repaid during the year	300,000
Issuance of Class B common shares	50,000
Issuance of subscribed Class A common shares	470,000
Increase in:	
Accounts payable - LAAD	38,818
Accrued interest payable	20,391
Other current liabilities	583
Decrease in:	
Cash in current accounts	7,571
	<u>\$3,460,366</u>

Financial resources were used for:-

Disbursement of loans	\$2,301,943
Investments in equity securities	871,429
Increase in:	
Time deposits	228,812
Other assets	58,182
	<u>\$3,460,366</u>

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LAAD DE CENTROAMERICA S.A.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 1973

Note 1 - Accounting Policies:

LAAD de Centroamerica S.A. (LAAD-CA) was incorporated in the Republic of Panama on November 9, 1971 to make investments in enterprises located in Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica. The objective of its investments is to improve the production, distribution and marketing of agriculture-based products.

The company is a 97.6% owned subsidiary of Latin American Agribusiness Development Corporation S.A. (LAAD), a Republic of Panama corporation. LAAD has purchased \$1,110,000 of Class A common stock in LAAD-CA and subscribed for the additional \$890,000 authorized Class A common stock.

A summary of the major accounting policies followed by the company in the preparation of the accompanying financial statements is presented below:

Foreign investments:

Equity investments in foreign companies are carried at cost since less than 20% of the voting stock is owned. All foreign loans are payable to the company in U. S. dollars.

Organization expenses

Organization expenses (see Note 2) are being amortized over a ten-year period which commenced January 1, 1972.

Furniture and fixtures

Provision for depreciation of furniture and fixtures (see Note 2) has been computed on the straight-line method over the estimated useful lives of the assets (ten years). Maintenance and repairs are charged to income currently, while renewals and betterments are capitalized. Upon the retirement or other disposal of fixed assets, the cost thereof and applicable depreciation are removed from the respective accounts and any gains or losses are included in income.

Provision for possible losses

It is the company's policy to provide a general reserve for possible losses of 2% on each foreign investment; this reserve is accrued over a period of twelve (12) months from the date of disbursement. In

ation, specific reserves for possible losses are provided for any investment which is deemed by the Board of Directors to have a permanent impairment in value.

Taxes on Income

No provision for U.S. Federal income taxes have been provided because the company has no U.S. sources of income nor income which is effectively connected with the conduct of trade or business within the United States. No provision for Panamanian income taxes has been provided since IIAO-CA's income is not considered as produced within the territory of the Republic of Panama and therefore is not taxable under the Panamanian income tax law.

Earnings per share of common stock

Earnings per share has been calculated based upon the weighted average number of shares outstanding during the period for each class of common stock. Total shares used in computation of earnings per share were 743 Class A common shares and 269 Class B common shares.

NOTE 2 - Other Assets:

Other assets consist of the following:

Accrued interest due within one year	\$40,420
Accrued dividends due within one year	24,312
Accounts receivable and other current assets	5,082
Furniture and fixtures, at cost less accumulated depreciation of \$462 (Note 1)	2,613
Organization expenses, at cost less accumulated amortization of \$2,750 (Note 1)	<u>12,250</u>
	<u>\$84,677</u>

NOTE 3 - Agency for International Development Loan

On October 26, 1971 IIAO entered into a loan agreement with the Agency for International Development (AID) whereby AID agreed to lend IIAO or IIAO-CA a 3% interest per annum, payable semiannually commencing in February 1973, an amount not to exceed in the aggregate \$5,000,000 to be drawn down by IIAO-CA before April 30, 1975. As of October 31, 1973, a total of \$2,323,926 was received by IIAO-CA on this loan. The total loans drawn down are repayable in thirty-one equal semiannual instalments commencing in August 1977.

The loan agreement contains various restrictions, including restrictions on dividends, long- and short-term indebtedness and a covenant that no part of the loan funds of LAAD and LAAD-CA be used to pay these proceeds to finance agricultural projects in Ecuador, El Salvador, Honduras, Nicaragua and Costa Rica. LAAD has used to provide the one capital source for agricultural projects a ratio of not more than 1:1 for each \$5 of IAD funds. Also, it is noted that these financings will be made with repayment terms of not less than three years or with interest not in excess of 9% per annum.

NOTE 4 - Shareholders' equity:

Changes in the Class A common stock of LAAD-CA for the year ended October 31, 1973 are summarized as follows:

	<u>Fully paid</u>		<u>Subscribed</u>	
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>
Balance at October 31, 1972	640	\$ 640,000	1,360	\$1,360,000
Payments for shares subscribed	<u>470</u>	<u>470,000</u>	<u>(470)</u>	<u>(470,000)</u>
Balance at October 31, 1973	<u>1,110</u>	<u>\$1,110,000</u>	<u>890</u>	<u>\$ 890,000</u>

On January 26, 1973, the Board of Directors of LAAD-CA authorized an amendment to the Articles of Incorporation which provided for a new class of common stock that will be sold to Central American investors. This common stock, designated as Class B common stock, is identical to the original common stock of the company (now designated as Class A) except that, among other things, the par value of the 10,000 shares authorized is \$100 and each share of Class A common stock is entitled to ten times as many votes and amount of dividends as each share of Class B common stock.

On April 23, 1973, 500 shares of Class B common stock with a par value of \$50,000 were issued to a company in Honduras.

NOTE 5 - Commitments:

At October 31, 1973 the Investment and Loan Committee of LAAD-CA had approved but not disbursed additional foreign loans of \$1,670,000 and additional equity investments in foreign companies of \$748,571.

Best Available Document

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APPENDIX B
EVALUATION METHODOLOGY AND SOURCES CONTACTED

Checchi and Company was requested by the Agency for International Development to undertake an evaluation of the Latin American Agribusiness Development Corporation, S.A. (LAAD). This assignment was to result in a report responding to study requirements outlined by AID/Washington. Additional concerns of the evaluation were presented in a cable from AID/ROCAP.

The major purpose of the study was to evaluate LAAD's agribusiness development activities as well as its efforts to promote capital market development in Central America. This required that the study team contact and interview LAAD sub-project managers as well as financial institutions in the area which were familiar with capital market development. The study was to be completed within a six-week period.

Before departing from Washington, the team reviewed background material, including the Loan Agreement and Capital Assistance Paper, provided by AID/Washington.

At the LAAD office in Miami, in-depth discussions were held with the President and Treasurer of the Corporation covering various topics including organizational structure, financial structure, staff functions, the CABEI relationship, shareholder relationships, new directions planned for the organization, as well as a review of projects funded.

Proceeding to the LAAD-CA office in Guatemala, the team met with the entire LAAD-CA staff for discussions which ranged over many subjects including the subsidiary's functions, loan criteria, long-term planning, relationships with Central American financial institutions, the ROCAP relationship, portfolio rotation prospects, shareholder input, and financial analysis activities. After a discussion and review of the

files of various sub-projects, certain ones in each country were chosen for visitation by the team. Projects were chosen on the basis of size, type of financing extended, industry category, and geographic accessibility (to accommodate the time frame of the study). The sample could not be deemed a scientifically chosen sample, but the number of projects visited, their location, and individual operational characteristics represent an adequate sample upon which to base judgment. Financial institutions to be visited were also selected at that time.

LAAD-CA staff thereafter arranged the team's itinerary, and provided the team with pre-financing documentation for each project to be visited, along with a brief summary of the current status of the project including operating statements for the firm.

AID/ROCAP was also visited by the team before beginning the interview phase to receive a briefing regarding certain issues which that office wanted investigated during the evaluation.

The principal officer of each sub-project was interviewed using a survey instrument (which is attached) and questions or issues arising from the interview were pursued by the team to the extent that it was practical. Generally, each interview was followed by a tour of the project.

The circuit ended in Guatemala with a debriefing session with AID/ROCAP where the team briefly presented its preliminary findings. LAAD-CA staff presented the team with additional written documentation on particular points arising from the initial discussions with them.

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LAAD PROJECTS AND OTHER INSTITUTIONS
VISITED IN CONNECTION WITH EVALUATION

G U A T E M A L A

PROJECTS:

Compañía de Distribución Centroamericana, S. A. (CODICASA)
Industrias Tropicales, S. A. (INTROSA)
Productos Alimenticios Grandel y Alpina, S. A. (Gran Alpina)
Las Flores, S. A.
Alimentos Congelados Montebello, S. A.
Los Pinos, S. A.

INSTITUTIONS:

AID/ROCAP
Financiera Industrial y Agropecuaria, S. A. (FIASA)
Banco de Londres y Montreal

H O N D U R A S

PROJECTS:

Líneas Aéreas Nacionales, S. A. (LANSA)
Compañía Agrícola Industrial Ceibena, S. A. (CAICESA)
Fomento International

INSTITUTIONS:

Central American Bank for Economic Integration (CABEI)

N I C A R A G U A

PROJECTS:

Hielera Sequeira
Industria Amolonca, S. A.
Productos Sanitarios de Nicaragua, S. A. (PROSAN)

INSTITUTIONS:

ADELA Investment Company, S. A.

C O S T A R I C A

PROJECTS:

Central American Meats, S. A. (CAMSA)
Pozuelo Picasso, S. A.
Tenería GISA
Taylor and Associates
Frigoríficos Nacionales
American Flower Corporation

INSTITUTIONS:

Corporación Financiera Industrial, S. A. (COFISA)
USAID/Costa Rica

E L S A L V A D O R

PROJECTS:

Pavos, S. A.
Avícola Salvadoreña

LAAD EVALUATION

Venture Questionnaire

Name of Company _____

Address _____

Name of Respondent _____

Position _____

Operation's main functions (products, services) _____

Request copies of profit and loss statements and balance sheets for all years of operation.

Request copies of feasibility, pre-investment, or planning studies or documents which were formulated before LAAD made its loan or investment. (This may be available at LAAD headquarters.)

Request copies of organization chart and plant layout.

1. When did your company begin operations? _____

2. When and in what form was the company's first contact with LAAD? _____

3. Precisely, what is the financial relationship between your firm and LAAD?

4. Do you foresee a change of any type in this relationship at any time in the near future? Yes () No ()

If yes, what change is foreseen? _____

5. Does your firm have financial relationships with any other lenders or investors other than LAAD? Yes () No ()

If yes, please name the lenders or investors and describe your firm's relationship with them. _____

6. At the time that you received financing from LAAD, were there other persons or institutions with which you were in contact who could have made financing available? Yes () No ()

If yes, who were they and why was financing ultimately not arranged through them? _____

If no, do you think that there will be problems in the future in securing any additional financing your firm may require? Yes () No ()

If no, what financing opportunities do you feel will be available? _____

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7. Has any of your capital been raised through a stock offering?

Yes () No ()

If yes, explain the situation surrounding the stock offering. _____

If no, do you feel that this method of raising capital will be possible for this firm in the future? Yes () No ()

Explain your answer _____

8. Is CABEI involved indirectly with the financing of your operation?

Yes () No ()

If yes, was this financing brought about through efforts of LAAD?

Yes () No ()

G O A L S :

9. Does your company have a stated set of objectives or goals in terms of quantity output, quality, market share, sales, net worth or other factors?

Yes () No ()

If yes, could you state for me the objectives? _____

10. What time schedule have you set to attain those objectives? _____

11. At what point will you consider your efforts in the business to be successful? _____

O U T P U T S :

12. What is your current level of output? _____ units per month

13. What is your current number of employees and their pay range?

_____ management	\$ _____	-	_____
_____ administration	_____	-	_____
_____ sales	_____	-	_____
_____ production FT _____	_____	-	_____ Seasonal _____
_____ other	_____	-	_____

14. Will there be a change in the production level which affects the number of personnel in the near future? Yes () _____ increase
_____ decrease
No ()

15. Has LAAD assisted you with staffing or personnel problems?
Yes () No ()

If yes, in what way? _____

16. From what sources do you obtain the bulk of your raw materials or supplies used in your operation?

Item	Country	Quantity	Price/Ea.

17. What percentage of all materials used in the operation come from
 within this country _____%
 outside this country _____%
 outside the C. A. region _____%

18. Has LAAD advised you in your purchasing problems? Yes () No ()

If yes, what kinds of advice was given? _____

19. What are the marketing channels that the firm uses to sell its goods? _____

20. What was the total value of sales during 1973? \$ _____

01

21. What percentage of the goods were sold

in this country _____%

in the C. A. region _____%

outside the region _____%

22. What specific problems have you encountered in your marketing effort?

23. Has LAAD been instrumental in your overcoming these marketing problems?

Yes () No ()

24. If yes, what specific assistance has been rendered to you by LAAD?

25. Has LAAD or anyone connected with LAAD assisted you with equipment procurement, equipment problems, or with plant design?

Yes () No ()

26. If yes, what kind of assistance was rendered? _____

27. Please describe technical assistance or support LAAD has rendered you other than in those areas mentioned above. _____

28. Did you pay any of the expenses for that assistance? Yes () No ()

29. If yes, specify. _____

30. What assistance from other sources have you received? _____

31. On an overall basis, how would you rate the assistance rendered by LAAD?

Very effective ()

Moderately effective ()

Not effective ()

Which type of assistance was the most useful?

Technical ()

Financial ()

Other ()

32. What special problems, other than operational problems, have been most difficult for the firm to overcome? _____

