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THE FIRST AUCTION OF PL-480 SECTION 108 FUNDS: A JAMAICAN EXPERIENCE

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1. The PL-480 Section 108 Legislation

On December 23, 1985, President Ronald Reagan signed into law H.R. 2100, the Food Security Act of 1985. Included in this act were a number of amendments to PL-480 Title I, in a section called "Sales for Local Currency; Private Enterprise Promotion." One of these amendments in particular, Section 108 of the PL-480 Title I law, created an innovative US Government program to stimulate private sector investment in developing countries. It allowed developing countries with Title I commodity import programs to pay part of their PL-480 obligations in their own currencies. The US Government would then use this money to provide new loan funds for productive private enterprise investment in that country.

Briefly, the existing law was amended to allow a developing country which purchases US commodities financed under the concessional terms of PL-480 Title I to pay cash for a portion of the goods with its own local currency. The US Government agrees to keep those funds in the country for at least ten years and makes most of them available for loans to the private sector. Five percent of the money is reserved for US Department of Agriculture market development activities in that country. At the end of the ten year period, the US Government, by agreement with the recipient country's government, is entitled to convert the original amount of local currency into US dollars over a period of up to twenty years at the exchange rate in effect at the time of conversion. The recipient country therefore benefits in at least three ways: By being able to import commodities without using scarce foreign exchange; by having these funds available for private sector lending in the country; and by shifting the exchange risk to the US Government when the funds are finally repatriated.

Section 108 provides that the US Government loan the local currency funds to privately owned intermediary financial institutions (IFIs) for on-lending to the private sector. The IFI must agree to use the local currency borrowed under this program to make loans "to private individuals, cooperatives, corporations, or other entities...at reasonable rates of interest for the purpose of financing ...productive private enterprise investment within such country". The law does specify a few restrictions on the loans made by the IFIs, as set out in Section 108 (c):

> "(1) A financial intermediary shall, to the maximum extent feasible, give preference to the financing of agricultural related private enterprise with the funds provided under this

section.
"(2)(A) A financial intermediary shall repay a loan made under this section, plus accrued interest, at such times and in such manner as will permit conversion of such foreign currency to dollars in accordance with the schedule for such conversion....
"(3) To be able to receive financing from a financial intermediary under this section, an entity or venture must--
"(A) be owned, directly or indirectly, by citizens of the developing country or any other country eligible to participate in a sales agreement entered into under this title, except that up to 49 percent of such ownership interest may be held by citizens of the United States; and
"(B) not be owned or controlled, in whole or in part, by the government or any governmental subdivision of the developing country....
"(5) No currency made available under this section may be used to promote the production of agricultural commodities or the products thereof that will compete, as determined by the President, in world markets with similar agricultural commodities or the products thereof produced in the United States."

2. Guidelines for Implementation

After PL-480 Section 108 became law, the Executive Branch agencies involved in the program met to establish guidelines for implementation. These guidelines described general policies and procedures. However, recognizing that conditions may vary greatly in the private productive and financial sectors of developing countries, the committee that drew up the guidelines gave US missions overseas broad authority to make decisions pertaining to Section 108 implementation in their respective host countries. The decision-making body in the mission was called the In-Country Policy Group (IPG). Within the IPG, the Agency for International Development (AID) was designated as the implementing agency for IFI loans.

The guidelines requested each IPG to estimate annually the ability and willingness of the host country to negotiate private sector lending provisions in their Title I sales agreements. Jamaica was the first country worldwide to take advantage of this new and innovative program. Beginning with the FY1987 PL-480 Title I agreement, 25 percent of Jamaica's annual sales agreements are devoted to a Section 108 program. Since Jamaica has been purchasing between US$30 million and US$40 million a year in Title I commmodities, the Section 108 program offered the potential for directing substantial new resources to the Jamaican private sector.

3. Allocating Loan Funds and Determining Interest Rates

When the In-Country Policy Group in Jamaica met to set up the private sector lending program, they faced several key decisions. First, to which IFIs would they loan the Section 108 funds? The legislation was clear that the IFIs must be privately owned. The guidelines also instructed,

> "Generally,...IFIs shall be sound, going, financial concerns, with a history of stability, financial strength, and experience. The selection of a specific IFI shall be based upon a conclusion that in the event of a default, the US would be able to commence legal action for damages and collect upon any judgement rendered in favor of the US."

A second question was how to allocate the funds among qualified IFIs, since Jamaica has a large number of stable, financially strong financial institutions. Finally, the IPG had to decide at what interest rate to lend the Section 108 funds to the IFIs. The legislation left the issue open:

> "The rate of interest charged on funds loaned to a financial intermediary under this section shall be such rate as is determined by the President and the intermediary."

The guidance was more explicit:

> "Loans to IFIs are to be made at reasonable interest rates as determined by the President. Generally, these will be consistent with business practices. ...The interest rate charged IFIs should normally approximate the cost of obtaining lendable resources of comparable maturities from the free private capital market in the individual cooperating country. If interest rates within that country are held down artificially by government policies, the rate charged the IFIs should be set within the context of US efforts to encourage overall policy reforms."

However, neither source gave the IPG unambiguous guidance on how to proceed in the Jamaican context.

Far from being held down artificially, Jamaica's commercial bank lending rates in 1987, at an average of 25.5 percent, were considerably above the 6.7 percent inflation rate. Most commercial bank loans are short term; longer term lending is available primarily from development banks, which on-lend funds provided by multilateral development institutions. Although commercial lending rates are not controlled, Jamaica's central bank, the Bank of Jamaica (BOJ), can influence them through several monetary policy instruments. The Bank of Jamaica sets two key rates, the mandatory floor rate paid by commercial banks on savings deposits and the discount rate charged to commercial banks borrowing from the central bank. In 1987, these rates were 15 percent and 15.85 percent, respectively. Banks are also required to maintain a certain percentage of their deposit liabilities in liquid assets, which include cash reserves and government securities. The "liquid asset ratio" in 1987 was 35 percent for commercial banks and 18 percent for non-bank financial institutions. In addition, the Bank of Jamaica issues its own Certificates of Deposit (CDs) to mop up liquidity. Since these represent a short term, riskless investment for commercial banks, the CD interest rate, which is now determined through an auction, has become a key factor in determining bank rates for riskier loans. In 1987, the CD rate averaged 18 percent. In its pursuit of a stable exchange rate policy, the Bank of Jamaica was purposely keeping real interest rates high in order to dampen domestic demand for foreign exchange.

The problem faced by the IPG was how to determine a market interest rate for its Section 108 funds, which would carry certain restrictions as prescribed in the legislation, in an environment where commercial lending rates were influenced by many non-market factors. On October 8, 1987, the IPG met to consider this question. A decision was made to establish the market interest rate through an auction.

The IPG envisioned a two step process. First, commercial and merchant banks needed to be prequalified for participation in the auction. This was particularly important because the Section 108 guidelines stated clearly that the funds were to be loaned only to financially viable private institutions. The IPG decided to resolve the financial viability issue by establishing a formal review of the banks' audited statements and setting criteria for prequalification. The second step was to allocate the initial tranche of Section 108 funds to prequalified financial institutions. The IPG decided to use an auction mechanism which would allow IFIs to bid for the money. Initially, US$1.8 million (J$10 million) of Section 108 funds were allocated to the first auction. This amount was later raised to US$3.6 million (J$20 million) as more funds from commodity sales became available.

4. Setting Up the Auction

As the implementing agency for Section 108, the AID mission in Jamaica was asked to design a system for prequalifying IFIs and auctioning the allocated funds. Through competitive bids, AID hired the international management consultants Touche, Ross, Ogle & Co. (TRO) to undertake three tasks. In Phase I, they were to design both the solicitation system to prequalify financial institutions for participation in the auction and the auction system itself. In

Phase II, they were to implement the system. In Phase III, they were to perform ongoing audit functions as required by the legislation and guidelines. The contract was signed on September 30, 1988.

In the first progress report, the contractor proposed two alternatives for evaluating and selecting IFIs to participate in the auction. Since the Bank of Jamaica conducts annual inspections of each financial institution and maintains a certified list of those approved to transact business in Jamaica, one alternative was to use the Bank of Jamaica's certified list. The second alternative was to evaluate each IFI on the basis of broad and comprehensive criteria. TRO divided the criteria into four categories and assigned points to each category reflecting its relative importance. Guided by the principals of practicality and simplicity, TRO suggested criteria which could be obtained without extensive research on the part of the IFIs.

After due consideration, AID and TRO decided that prequalification would combine these two alternatives. Thus an IFI was considered to be prequalified if its name was included in a certified list of approved financial institutions and its financial condition was satisfactory to AID. For the second condition, IFIs were initially required to furnish their latest audited as well as most recent unaudited financial statements, which were evaluated by TRO. In subsequent auctions, for IFIs which had previously prequalified, annual audited financial statements were considered sufficient. AID decided on a two part prequalification procedure because the central bank's inspection was carried out only once per year. To comply with the guidelines, which required IFIs selected to be "sound, going, financial concerns", a further check of the most recent financial data was considered prudent.

The next task in Phase I was to design the auction mechanism. TRO proposed three fundamental principles:

1. The auction should follow the "Dutch Auction" principle, i.e. each successful bidder pays the interest rate he bid.

2. The highest bidder gets first dip into the pool. The next runner-up in bid price (interest rate) gets the next dip into whatever remains of the pool, continuing in this manner until the pool is dry.

3. A minimum interest rate should be set to forestall collusion among banks to bid at low rates and thus ensure that the auction results in a realistic market interest rate.

AID accepted these three principles, which became the basis for the first auction.

5. Issues for the Jamaican Government

Before implementing the auction, AID approached the Jamaican Government with three issues for clarification. The first was whether the funds loaned by AID to IFIs would be subject to the Bank of Jamaica's cash reserve or liquid asset requirements. Although normally only deposit liabilities are subject to reserve requirements, the Bank of Jamaica has the authority to designate other liabilities. The second was to receive confirmation from the Ministry of Finance that the US Government exemption from Jamaican tax would be applicable to Section 108 lending activities. The third was to receive confirmation from the Ministry of Finance that a Section 108 loan agreement between the US Government and a financial institution would be exempted from Jamaica's usury law, the Money Lending Act, and thus be enforceable in Jamaican courts at interest rates above 12.5 percent. The Money Lending Act provides that for any loan exceeding 12.5 percent, where the lender takes legal action to recover money, the court may reopen the original transaction if there is evidence that the interest charged is excessive.

To clarify these three issues, the US Embassy in Jamaica sent a diplomatic note to the Ministry of Foreign Affairs in May 1989 requesting assistance. The Ministry replied in July. Regarding the income tax exemption, the Ministry stated that, under the terms of the bilateral economic and technical assistance agreement between the United States and Jamaica, dated October 24, 1963, the Minister of Finance could exercise his power to exempt the interest on Section 108 loans from withholding tax. On the applicability of the Money Lending Act, the Ministry noted that at interest rates greater than 12.5 percent, contracts between AID and IFIs would be enforceable but subject to review by the court. However, the Minister of Finance could exempt the contract from the provisions of the Act. Finally, regarding the applicability of reserve and liquid asset requirements, the Ministry merely noted that discussions between AID and the Bank of Jamaica had been held.

The Ministry also advised the Embassy that the Jamaican Government supported the Section 108 lending program and would assist the US Government by granting favorable consideration to applications made under the Income Tax Act, the Money Lending Act and any other relevant enactment which would ensure the successful implementation of the program. Subsequently, the Minister of Finance issued an exemption order for the Money Lending Act. Although the Finance Ministry also agreed to exempt Section 108 interest from withholding tax, the official order has not yet been published. With regard to the cash reserve and liquid assets requirements, the Bank of Jamaica advised AID that it had agreed in principle to exempt Section 108 loans from these limitations.

6. Implementing the Auction

AID and TRO were now ready to begin implementation of the first auction. In this phase, they had to decide on the final amount to be auctioned, the frequency of auctions, the methodology for soliciting bids, the procedure for bidding, the floor interest rate, and the limit on exposure to any one IFI. Regarding the amount of funds, the IPG allocated J$20 million (US$3.6 million) for the first auction. Future amounts were to be determined by inflows of Jamaican currency generated by the Section 108 program. The frequency of auctions would be decided on an *ad hoc* basis, depending on the availability of and demand for funds.

Prior to soliciting bids, TRO suggested that Chief Executive Officers of eligible IFIs be briefed on the Section 108 program to facilitate cooperation. Accordingly, TRO invited the CEOs of twenty-eight commercial and merchant banks which appeared on the Bank of Jamaica's certified list to a briefing held on May 22, 1989. Twenty banks attended. At the meeting, interested CEOs were given an information manual, which is included in this report as Attachment I. The agenda of the meeting covered the following:

- Purpose of the program
- Purpose for which IFIs may make sub-loans under the program
- Limit of AID's exposure to any one IFI
- Approximate amounts to be loaned to IFIs
- The mechanism of the auction system
- Prequalification procedure
- Cash and liquid asset reserves
- Record keeping
- Quarterly reporting of subloans
- Annual audit

At this conference, IFIs wishing to participate in the auction were requested to submit their most recent audited and latest in-house financial statements to TRO for prequalification evaluation. TRO received seventeen replies, and recommended sixteen IFIs for prequalification. Several banks which had public sector participation had previously been declared ineligible and were not represented at the conference. The one bank that was not prequalified was excluded because it was engaged in lease financing. Since the Section 108 legislation states that the agreement between an IFI and the US Government shall be for the purpose of making loans, AID concluded that lease financing was not a permissible use of the funds.

Once the sixteen financial institutions had been prequalified, TRO sent each one an invitation to bid in the first auction. Texts of the invitation letter and the bid application form are included in the Information Manual. The invitation letter stated the amount of funds to be auctioned, the deadline for receiving bids, and the bid opening date. It also advised that the limit on the amount of AID's Section 108 exposure to any one financial institution at any one time would be two and one half times the institution's equity, defined as total share capital and reserves. The bid application form asked for the amount of the bid, the bid interest rate, principal and interest owed to AID from previous Section 108 transactions, and share capital and reserves. IFIs were given approximately two weeks to submit bids.

Prior to opening bids, a floor interest rate had to be established. This was to be the rate below which bids would not be accepted. Based on new Section 108 interest rate guidance from Washington, the IPG decided the floor interest rate could not be lower than the rate of inflation. However, to prevent speculative bidding, the IPG also decided that the floor interest rate would be confidential.

The bid deadline for the first auction was August 15, 1989, with the bid opening held on August 17. Eleven IFIs submitted bids. Representatives of all participating banks as well as the Bank of Jamaica and the Ministry of Finance were invited to attend the bid opening. Each bid was opened and read publicly, and recorded on a blackboard. Two banks, the Eagle Merchant Bank of Jamaica Ltd. and the Mutual Security Bank Ltd., bid the highest rate--19 percent--for the entire J$20 million. The lowest rate bid was 14 percent, and the median rate was 17.3 percent. Based on the auction principles, each of the highest bidders was awarded J$10 million at 19 percent interest. The J$20 million offered satisfied only 11 percent of total demand, which was J$180 million.

7. Executing Loan Agreements

The next step was to negotiate loan agreements with the successful bidders. A draft loan agreement provided by Washington is included in the Information Manual. This formed the basis of the two agreements negotiated with Eagle Merchant Bank and Mutual Security Bank. The terms of both loans provided for principal of J$10 million, repayable at an interest rate of 19 percent per annum over a ten year period in sixteen semi-annual payments, with two and a half years grace. The first interest payment is due six months after the first disbursement. The borrowers agreed to use the principal to make subloans to private individuals, cooperatives, corporations, or other entities within Jamaica to finance productive, private enterprise investment. The borrowers also agreed, to the maximum extent feasible, to give preference to agricultural related private enterprise. Reflecting the Section 108 legislation, the borrowers are prohibited from making subloans to government owned or controlled enterprises or to enterprises which produce agricultural products competing with US agricultural commodities in world markets.

The only provision of the draft loan agreement which caused the banks concern was the requirement that each subloan be audited annually by the bank's own independent auditors. The banks anticipated that, if the number of subloans were large, this provision could be onerous. However, this concern did not stand in the way of executing the agreements expeditiously. Both were signed in October 1989. Conditions precedent were met in December and the funds were disbursed shortly thereafter.

8. The Second Auction

The second auction, for J$28 million (US$4 million), was held early in 1990. The banks which wished to participate were required to submit their most recent financial statements to TRO by January 10, 1990. Those who were prequalified were sent invitations to bid on January 15. The bid deadline was January 30. TRO also held a second "pre-bidders conference". Participants were primarily investment and trust companies who had not been invited to participate in the first auction because it was unclear whether their lending activities were to "productive enterprises" as defined for Section 108 loans.

Of the twenty-one IFIs invited to bid, only ten submitted bids. Bids were opened on February 1, 1990. As in the previous auction, all banks who had submitted bids were invited to attend the bid opening. Each bid was opened and read publicly, and recorded where all could see. The big surprise was the dramatic increase in interest rates compared with the first auction. In only five and a half months, the clearing rate rose nine percentage points and the median rate was eight percentage points higher. One merchant bank, George & Branday Ltd., bid 28 percent for J$8 million. This was the highest bid and thus the clearing rate. Three other banks bid 27 percent: Bank of Nova Scotia (Ja.) Ltd. for J$5 million; Century National Bank Ltd. for J$15.5 million; and Century National Merchant Bank & Trust Co. Ltd. for J$12.5 million. These four bids more than exhausted the amount offered. According to the auction principles, the J$28 million was allocated as follows: George & Branday, J$8 million; Bank of Novia Scotia, J$3 million; Century National Bank, J$9.4 million; and Century National Merchant Bank & Trust Co., J$7.6 million. The lowest rate bid was 23.75 percent, and the median rate was 25.21 percent. The J$28 million offered satisfied only 20 percent of total bids of J$139 million.

The substantial rise in interest rates bid at the auction resulted from major developments in the financial environment and the Jamaican government's monetary policy. In the summer of 1989, strong demand for foreign exchange combined with a critical foreign exchange shortage caused the Jamaican dollar to fall sharply in the biweekly auction. Although interest rates were already high, the government tightened monetary policies to dampen foreign exchange demand. In October, the central bank imposed credit ceilings and raised the minimum savings deposit rate from 15 to 18 percent. In November, the government suspended the foreign exchange auction and moved to a fixed exchange rate. As a result of these policies, credit became scarce and interest rates moved up. By December, the clearing rate at the Bank of Jamaica CD auction had risen to 26 percent. This, of course, also pushed up the cost of loans to the private sector.

In January 1990, the Jamaican Government announced the terms of its renegotiated IMF Standby Agreement. The exchange rate was devalued further to J$7=US$1, and stringent monetary restraint is expected for the foreseeable future. Credit ceilings will be phased out by the end of 1990, but they will be replaced by increased cash and liquid asset reserve ratios. The high bids in the second auction indicate that the banks expect interest rates to continue to rise.

9. Subloans Under the First Auction

When the US Congress passed legislation to create the new "local currency lending program", the intent was to direct more foreign assistance to the private sector. In the conference report which accompanied the legislation, Congress stated that the program would be judged on the quality of investments made, not on the volume of funds directed to IFIs. Thus the real test of the program's success is in the subloans.

By the time the two successful bidders had received their loans and were ready to put together a portfolio of subloans to productive enterprises, the climate for lending and investment was heavily influenced by the financial sector environment described above. Interest rates on Bank of Jamaica CDs had risen further to 28 percent by February 1990. Eagle Merchant Bank and Mutual Security Bank had to find productive private sector projects which could afford to pay the high prevailing rates of interest. The credit ceilings imposed an additional constraint, as most banks were already at or above their ceilings. They therefore had to work within unfunded commitments for new project financing.

Nevertheless, the banks have lent the Section 108 funds to a variety of enterprises, with most productive sectors of the economy represented: Ten percent is in agriculture, 25 percent in tourism, 12 percent in housing and construction, 14 percent in transportation, and 37 percent in manufacturing. The projects include a coffee estate, a producer of low-income pre-fabricated housing units, a hotel, a villa complex, a tire recapping operation, a manufacturer of chalk and crayons, a manufacturer of plastic items, a food products company, a manufacturer of lighting fixtures, and a start-up farm with cocoa, papaya, plantains and vegetables.

Eagle Merchant Bank has divided its J$10 million among six projects, as follows:

Sub-borrower	Type of business	Amount (J$'000)	Interest Rate	Repayment Period
CCIAP, Ltd.	Manufacturer of chalk and crayon	475	30% variable	5 years
Hi-Mileage	Recapping tires	2,295	28% variable	9 years
Thermo-Plastics (Ja.) Ltd.	Manufacturer of plastic products	930	30% variable	5 years
Ciboney Villas	Hotel ownership	2,000	28% variable	9 years
National Contin-ental Corp. Ltd.	Manufacturer of food products	2,000	30% variable	9 years
A.H. Buildings Ltd.	Manufacturer of low income housing	2,300	30% variable	4 years
Total:		10,000		

Mutual Security Bank has five projects, as follows:

Citrad Ltd.	Manufacturer of lighting fixtures	1,000	current min-imum (30%)	5 years
Coffee Producers	Blue Mountain coffee	1,000	current min-imum (30%)	5 years
St. Albion Estates	Farm producing cocoa, papaya, veg-etables, plantains	1,000	current min-imum (30%)	5 years
Beachcomber Resorts, Negril	Condominium com-plex in Negril	3,000	current min-imum (30%)	2 years
Thermo-Plastics (Ja.) Ltd.	Manufacturer of plastic products	4,000	current min-imum (30%)	5 years
Total		10,000		

Regarding the interest rates quoted, most interest rates in Jamaica are variable. Commercial banks have a "current minimum lending rate", which functions like a prime rate and moves in response to financial market conditions. Most commercial bank loan agreements will state either the current minimum or a spread over the current minimum. The merchant banks do not quote a minimum lending rate. Their loan agreements specify the rate granted when the loan is negotiated, but the bank has the right to change the rate at any time at its discretion. In practice, conditions in financial markets usually determine when rates are changed.

10. Description of the Projects Receiving Section 108 Loans from the First Auction

The following section provides a brief description of each of the projects which received Section 108 loans from the first auction. All but Beachcomber Resorts, Negril were visited by AID personnel.

Caribbean Chalk Instruments & Art Products Ltd. (CCIAP Ltd.) is a subsidiary of Intercorp Holdings Ltd. The associated companies include a stationery manufacturer which produces school supplies, ledgers and diaries; and a garment manufacturer that specializes in made-to-order uniforms. The chalk company currently makes school chalk. It is expanding into other related school items and recently received a franchise from a British company to produce crayons. The stationery and chalk operations are currently located in rented facilities, which are not conducive to expansion. Eagle Merchant Bank has put together a loan package to assist the company in purchasing new premises and importing machinery and other capital goods necessary for the expansion. The package includes foreign exchange financing from the International Finance Corporation and local currency financing from the Section 108 loan. All Intercorp Holdings' operations will eventually be located on the new property, which has the added benefit of being located in an urban renewal area of downtown Kingston. Aubrey Smith, the group chairman of Intercorp Holdings, hopes to capture not only the Jamaican market for crayons, currently dominated by Japanese and Taiwanese imports, but also expects to be a net exporter within two years of starting production. He projects potential export earnings at US$3 million. His main overseas market will be CARICOM, but he will also supplement the UK production for the company which has licensed his operation. The crayons will benefit from duty-free concessions of both the CBI and the Lome Convention.

Hi Mileage Retread Ltd. is a franchisee of the US company Oliver Rubber. It imports precured rubber tread for recapping of commercial vehicle tires. Hi Mileage, which just began its tire recapping operations in February 1990, has only one competitor in Jamaica, a franchisee of the US company Bandag. The Managing

Director of Hi Mileage, Ashmead A. Radway, was formerly production manager at Bandag. In his earlier position, he realized that the market for recapping commercial vehicle tires--particularly minibus tires, which wear down in a matter of weeks--was not being satisfied by one firm. The Section 108 loan is part of an Eagle Merchant Bank loan package to finance start-up costs for acquisition of factory and office premises, machinery, and raw materials. By providing additional tire recapping capacity in Jamaica, Hi Mileage has the potential to contribute to the efficiency and productivity of the commercial transportation system.

Thermo-Plastics (Ja.) Ltd. in Jamaica has the largest and most modern plant in the Caribbean for production of plastics. The company also has a plant in Trinidad. It produces plastic packaging materials, housewares, fittings, and PVC pipes, which are sold in Jamaica and other CARICOM countries. The company was started by Haitian-born Tom Desulme in 1965, and moved to its present location in the Twickenham Park industrial estate in 1973. Originally an import substituting operation, Thermo-plastics decided to modernize, expand, and improve efficiency when faced with increased import competition in the 1980's. In 1986 the fittings section was retooled. The company is now importing three new injection moulding machines to update its moulds and improve its competitiveness. The expansion and modernization program will be financed by more than one bank, and both Eagle Merchant and Mutual Security have allocated a portion of their Section 108 funds to this project. The Mutual Security loan will finance machines for soft drink crates, where demand is expanding rapidly, while the Eagle Merchant loan is for new injection moulding machinery for the fittings section. Thermo-plastics' President and CEO, John Desulme, has recently secured a contract to export some of his fittings to the US market. Approximately 10 percent of Thermo-plastics' production is exported, and of this around 70 percent goes to other CARICOM countries.

Ciboney Villas Ltd., a subsidiary of Ciboney Holdings Ltd., is the second phase of a multi-faceted tourism project. The first phase is a 250 room all-inclusive hotel in Ocho Rios, which was completed and opened in 1989. The second phase, currently under construction on 33 acres in Ocho Rios, includes seventy-five luxury villas, a country club/hotel complex, sports installations, several restaurants, and a convention center that will seat up to 450 people. Between the seventy-five villas and the forty-six room hotel/country club, this new complex will provide almost 300 new rooms. Financing for the project, estimated at around J$170 million, is from several sources: Equity of the partners in Ciboney Holdings; loans from a consortium of commercial banks (which includes Eagle Merchant Bank's Section 108 loan); two development banks; and sales of villas to individual investors. The villa complex will have some all-inclusive features, such as the inclusion of sports and other common facilities in the villa rental rates, but will cater to a clientele which prefers more flexibility than is available in all-inclusives. The entire Ciboney project will create over one thousand jobs in Jamaica: Four hundred staff at the all-inclusive hotel; six hundred on the villa construction site; and three hundred and fifty staff when the villa/country club/convention center is completed.

National Continental Corporation Ltd. is a food products conglomerate. Among its subsidiaries are Caribbean Broilers, which supplies broiler meat for a third of the local market; Newport Mills, which produces animal feed; and National Continental Foods, a bakery for bread, biscuits and confectioneries. In addition, National Continental has just purchased a bottling plant. As the company has limited space for expansion in its present premises, it has just purchased four acres of land to allow centralization of some of its operations. In particular, it plans to consolidate warehouse and distribution operations, which will allow for improved wholesale marketing and reduce the cost of distribution to retailers. The Section 108 loan through Eagle Merchant Bank is part of a loan package to finance purchase of these new facilities.

A.H. Buildings Ltd. makes pre-fabricated concrete panels for low income houses. The company was started in 1982 by Mr. Loo, the Managing Director. It produces two bedroom, three bedroom and two story townhouse modules, but could go up to four stories. The capsules are cast, assembled, and painted at the factory, and then transported by trailer to the construction site, where they are mounted on foundations. A large, heavy duty crane is required to move the finished structures onto the foundations. The Eagle Merchant Section 108 loan of J$2.3 million will finance the purchase of a second 140 ton P&H model crane and a Manitowac 2900 ton 80 foot boom, which will enable the company to work at more than one site simultaneously. The bulk of A.H. Buildings' work is under contract to the Ministry of Construction and Housing for government sponsored low income housing complexes. The company produced an average of one house per day (around 300 units) in 1989, and it expects to expand to one and a half per day (450-500 annually) in 1990, due to increased demand.

Citrad, Ltd. produces ballast for fluorescent lights and lighting fixtures. Citrad evolved from a family-owned radio shop begun in the 1940's. From radios, the original company branched into retailing a broad line of domestic appliances. In the early 1970's, Citrad divested itself of domestic equipment and concentrated on electronics and electrical equipment. At this time, the family also bought a plant which manufactured fluorescent lighting ballast. Eventually they expanded the manufacturing side to produce aluminum barckets for lighting fixtures and control gear as well as ballast.

Citrad now retails only its own products. Approximately 15 percent of its production goes to Jamaica Public Service (the Jamaican Government power company). The rest is to contractors, architects, and over the counter. The company had an active export market in Trinidad until four years ago when Trinidad closed much of its market to CARICOM producers. It still sells to other CARICOM countries, such as Barbados, Grenada, Montserrat and Guyana. The Section 108 loan of J$1 million from Mutual Security Bank is to support an ongoing modernization program to improve the efficiency and productivity of Citrad's operations. Citrad recently purchased a wire cutting machine to deal with a bottleneck in its production line, and is seeking technology from Germany to adapt an underutilized punch press to making stainless steel bolts. Between the administrative and sales office and the plant, Citrad employs seventy-two people.

Coffee Producers is a company which owns 400 acres of land in the Blue Mountains. Around 200 acres, divided into two estates of 71 acres and 130 acres, are planted with coffee trees of the Typica (Arabica) variety, producing the famous Blue Mountain coffee. The smaller farm, which was due to have its first major crop of around 30 metric tons in the 1988/89 crop year, sustained extensive damage from hurricane Gilbert, which hit Jamaica in September 1988. Almost fifteen percent of the mature trees were destroyed, and most of the rest were so badly damaged they had to be cut back. Although the young trees were spared, they are only now reaching bearing age. So this farm has not produced since the hurricane. Mutual Security Bank has been financing part of the rehabilitation and maintenance program until the trees again begin bearing. This includes cutting back the damaged trees and replacing those that were uprooted; controlling weeds, diseases and pests during the several years it takes the plants to reach maturity; and fertilizing the trees during these years. Mutual Security's Section 108 loan to Coffee Producers will finance part of this program. The first major crop from this farm is now expected in the 1991/92 harvesting season.

St. Albion Estates is a 300 acre farm on Jamaica's North Coast near Port Maria, and was purchased in 1982 by the current owner, Seymour Morales. Mr. Morales rehabilitated a cocoa estate located on the property, planted tomatoes, onions, beets and turnips as cash crops, and is now expanding into orchard tree crops such as papaya, mango, citrus, and ugli fruit. Except for the cocoa, which must be sold to the Cocoa Board, he sells his production to local "higglers", who truck it to markets throughout Jamaica: North Coast hotels, Montego Bay and Ocho Rios produce dealers, and Kingston wholesalers. The Section 108 loan is to support his latest expansion into tree crops, providing working capital to finance fertilizer, pesticides, labor, and other inputs needed during the time the trees are growing to maturity. In addition to growing fruits and vegetables on the farm, Mr. Morales leases out a large entertainment facility for special events. An experienced construction contractor--Mr. Morales ran one of Jamaica's largest construction companies before he bought the farm--he built the facility himself. It includes a large enclosed room with dining tables and a dance floor, a stage for performers, several barbeques, a kitchen, toilet facilities, a playground for children, and a spectacular view of the sea at Port Maria.

The Beachcomber Resorts involves the construction of a prestigious condominium complex on a beach front property in the tourist resort area of Negril. It is upscale in nature and will cater to more affluent tourists. It contains four one-bedroom and eighteen two-bedroom units, with a restaurant, bar, swimming pool and other facilities. Total development costs exclusive of land are around J$14 million, and the project is now 40 percent completed.

Attachments:

1. PL-480 Title I Section 108 Program Funds: Information Manual
2. Tables of Section 108 Auction Results
3. Four photographs of the Second Auction

Drafted by: Dorothy J. Black March 15, 1989

Document # 0186B

THE FIRST AUCTION OF PL-480 SECTION 108 FUNDS
PART II: CONCLUSIONS AND RECOMMENDATIONS

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THE FIRST AUCTION OF PL-480 SECTION 108 FUNDS
PART II: CONCLUSIONS AND RECOMMENDATIONS

1. Introduction

Part I of this report described the evolution of the PL-480 Section 108 auction of local currency funds to private financial institutions; how the auction works in practice; the results of the first two auctions; and the ultimate use of subloans under the first auction. As required in the contractor's scope of work, conclusions and recommendations for program redesign are included in this second, separate report.

2. General Evaluation of the Section 108 Auction Mechanism

A. Quality of Subloans

The Section 108 guidelines issued in August 1986 clearly stated that Congress would judge performance under the PL-480 Section 108 program on the quality of ultimate investments. Although only J$20 million (US$3.4 million at the 1989 rate) has been lent by financial institutions to productive enterprises under USAID/Jamaica's auction system as of March 1990, the subloans meet all requirements of Section 108 legislation and guidance.

The disposition of the subloans was as follows:

Sub-borrower	Type of business	Amount (J$'000)	Interest Rate	Repayment Period
CCIAP, Ltd.	Manufacturer of chalk and crayon	475	30% variable	5 years
Hi-Mileage	Recapping tires	2,295	28% variable	9 years
Thermo-Plastics (Ja.) Ltd.	Manufacturer of plastic products	4,000	current MSB minimum (30%)	5 years
		930	30% variable	5 years
Ciboney Villas Ltd.	Hotel ownership	2,000	28% variable	9 years
National Continental Corp. Ltd.	Manufacturer of food products	2,000	30% variable	9 years

A.H. Buildings Ltd.	Manufacturer of low income housing	2,300	30% variable	4 years
Citrad Ltd.	Manufacturer of lighting fixtures	1,000	current MSB minimum (30%)	5 years
Coffee Producers	Blue Mountain coffee	1,000	current MSB minimum (30%)	5 years
St. Albion Estates	Farm producing cocoa, papaya, vegetables, plantains	1,000	current MSB minimum (30%)	5 years
Beachcomber Resorts, Negril	Condominium complex in Negril	3,000	current MSB minimum (30%)	2 years
Total		20,000		

As is clear from this list, all subloans have gone to Jamaican-owned productive enterprises in a variety of sectors, including agriculture. The distribution of subloans by sector is as follows:

Sector	Amount (J$'000)	Percent of Total
Agriculture	2,000	10%
Tourism	5,000	25%
Housing & Construction	2,300	12%
Transport	2,295	14%
Manufacturing	8,405	37%
Total	20,000	100%

The uses of the loans also conform to the letter and the spirit of the Section 108 program. Of the J$20 million from the first auction, 39 percent has been used for investment in new productive enterprises in tourism, manufacturing and transportation; 46 percent has gone towards expanding capacity and improving productivity in existing manufacturing and farming operations; 10 percent was invested in improving distribution facilities; and 5 percent went to hurricane reconstruction and rehabilitation in agriculture.

B. Credit Ceilings

Although the credit ceilings imposed in October 1989 raised concerns that the Section 108 funds would be used to refinance existing loans rather than add to the pool of funds available to the private sector, this does not appear to be the case. The administration of credit ceilings has been more flexible than originally expected, and most banks had substantial unfunded commitments for new lending when the ceilings were announced. Moreover, under the new IMF Agreement increased cash and liquid assets ratios will gradually take the place of credit ceilings in restricting the expansion of credit. Credit ceilings must be phased out by December 1990, and may be eliminated earlier, if conditions warrant. Banks are therefore more concerned now with the increase in reserve ratios, which will cause interest rates to rise even more.

C. Interest Rates

Guidelines issued by the DCC in July 1988 clearly stated that interest charged to intermediate financial institutions (IFIs) must be at market interest rates. Judged by this yardstick, the auction mechanism has been extremely successful. The interest rates bid in both auctions held to date have reflected the marginal cost of funds to IFIs, generally at or close to the rate they are paying on short term CDs. This in turn reflects the marginal interest rate on Bank of Jamaica CDs, the most widely used riskless high yield short term investment alternative. Moreover, the rates bid at the auction have consistently exceeded the rate of inflation as measured by the Consumer Price Index.

Other terms of the subloans also reflect current financial market conditions. With the exception of funds which commercial financial institutions on-lend from the National Development Bank and the Agricultural Development Bank, all commercial loans are now made at variable interest rates. Accordingly, all the loans from the Section 108 funds have been made at variable interest rates, currently ranging from 28 to 30 percent. The commercial banks set a minimum lending rate, which fluctuates as financial market conditions change. The interest rate in the loan contract is cited as a function of this minimum lending rate. Merchant banks do not have a minimum, but write loan contracts so that the interest rate can be changed at any time at the bank's discretion. We note that as a result of the high prevailing market interest rates, the banks which borrowed Section 108 funds in August 1989 at a fixed rate of 19 percent are now receiving spreads of 9-11 percent.

Although the subloans have gone to productive enterprises at the prevailing market interest rates, the high absolute level of these rates must raise some concern about the ability of the final borrowers to carry their debt burden and still be competitive against either imports in the domestic market or in export markets when competing against goods from countries where the cost of money is much lower. Another concern, which is the responsibility of the commercial banks, is whether enterprises will be able to repay both the principal and high interest charges on the loans. Because the program has just started, there is no way to know what the default rate will be.

To give a comparison, the usual sources of lending to productive investments are the National Development Bank (NDB) and the Agricultural Development Bank (ACB). These institutions lend funds from multilateral agencies (IBRD and IDB) and the Jamaican Government assumes the exchange risk. When the commercial banks on-lend the funds, they are limited to a 3 percent spread. These loans carry interest rates of 15-16 percent, and the rate is fixed for the term of the loan, which can be up to 12 years. Obviously an interest saving of 14-15 percent on a sizeable investment makes a big difference to the potential success of the project. The drawbacks of NDB and ACB loans are 1) the purposes are restricted to new investment lending and 2) the paperwork involved sometimes requires a lead time of as much as two years. Nevertheless, under prevailing financial conditions, companies or projects which qualify for NDB or ACB loans will certainly prefer these sources over regular commercial bank lending. The large differential in interest rates between development banks and commercial financial institutions may be reduced in the near future, however. Both the IBRD and IDB have been pressing the Jamaican Government to eliminate "subsidized" interest rates as a policy condition for structural adjustment loans under negotiation.

3. IFIs' Evaluation of the Section 108 Auction

Just before the second auction, the contractor Touche Ross Ogle (TRO) conducted a telephone survey of the banks which had participated in the first auction to ascertain their views on the program. Eight of the fourteen banks surveyed, including the two successful bidders, were fully satisfied with the auction procedure. The main concern of the others was the high clearing rate, and the auction principle that allocates all funds to the highest bidders. Clearly, these banks would have preferred an administered method of allocation so that they could have funds at a lower rate.

Other bankers expressed similar views in discussions with the author of this report. Since the amounts of Section 108 funds auctioned are so small, one bank can take the whole amount if it bids high enough. Some bankers feel that this will encourage small banks which have serious funding problems and a higher marginal cost of funds to take the whole amount. They have suggested that these banks may not be the best conduit of funds into sound productive investments. At this early stage of the program, it is difficult to evaluate the validity of this view, but it does not seem to be borne out by developments to date. Mutual Security Bank, which was successful in the first auction, is the third largest commercial bank in Jamaica. The second largest bank, Bank of Nova Scotia, was successful in the second auction. The largest bank, National Commercial Bank, has not won any funds because as a partially government owned bank it is ineligible to bid. Furthermore, it is unlikely that the banks would lend funds at a rate different from the prevailing interest rate at any one time even if a different allocation system were used. The results of the first auction show that, when prevailing interest rates are much higher than the Section 108 rate, the banks, not the final borrower, capture the rents.

Because the Bank of Nova Scotia is the largest bank to have won a Section 108 bid, I spoke with the loan officer who will be handling the onlending. He said his bank bid 27 percent, which was the rate they were paying for CDs, because they wanted to participate in the program. He expected to on-lend the funds either for working capital to the manufacturing and export sectors, or to the tourism sector. He felt the funds could be lent at 29-30 percent because they were exempt from reserve and liquid asset requirements.

Some bankers feel that the Section 108 funds could fill an important gap in the market if refinancing were permitted. They note that before ACB loans were available, many legitimate farmers borrowed at commercial interest rates, which are now very high. These farmers are ineligible for ACB financing because they are not starting new projects or investments, but the high commercial rates are a heavy burden for them. They need to refinance with term loans at lower interest rates. In addition, even borrowers from NDB and ACB sometimes face problems. With delays in securing these loans, inflationary forces often push the costs of the project or the need for permanent working capital beyond original estimates. However, NDB and ACB rules are not flexible enough to allow refinancing even of their own loans. When the difference between commercial lending rates and the development banks' rates was lower, these problems did not arise, because commercial lending was able to fill the gap. At current rates, however, projects which can handle NDB or ACB rates may not have a sufficient rate of return to pay commercial rates. But unless Section 108 funds are lent at lower rates than other commercial bank funds--which was not the case for subloans from the first auction--the Section 108 program cannot offer a solution to these problems.

4. Issues for Consideration in Future Auctions

A. Possible Modifications in the Standard Loan Agreement

As the auction program proceeds, several issues have arisen which are not covered in the standard loan agreement. They are being raised in this section as potential areas where AID may wish to seek modifications in the agreements.

The first is the question of early payment (before the ten year term of the loan) by the IFI without penalty. At present, the loan agreement is silent on early payment. This means that the IFIs can prepay the loan at any point in time. The effect is to encourage higher interest rate bids in a period when rates are very volatile. If the bank's cost of funds drops below the Section 108 rate, the bank will simply repay the loan in full and finance the outstanding loans with other sources of funds. AID should consider whether this is what they want to achieve through the program. The alternative would be to require a penalty for prepayment before a certain date. This date could be set at any time during the ten year term of the loan. A penalty for repayment before a certain period of time would probably bring some reduction in the overall level of bid rates.

The second issue is what happens if an IFI wins an auction bid but subsequently fails to draw down the funds within the eighteen months provided. Is there a penalty for this failure? Are the funds reallocated to the next highest bidder? Or are they simply channeled into the next auction? The agreement is also silent on whether there is a maximum period within which the funds must be on-lent to subborrowers, except that the US Government has the right up to three years from the date of the last disbursement of principal to require a refund of principal.

The third and fourth issues were raised by TRO, in response to questions from some of the small, highly specialized non-banks. One finance company, which specializes in financing insurance premiums, asked whether payment of an insurance premium to protect a capital investment would be considered a "productive investment" under the Section 108 program. Another finance company, which specializes in lease financing, asked whether capital goods financed through a leasing arrangement are eligible for Section 108 lending. AID's Regional Legal Adviser previously gave an opinion that leasing arrangements are excluded because they are not loans, and the Section 108 legislation only permits loans. However, TRO advises that finance leases are considered loans in Jamaica. These issues may have to be clarified by a legal opinion, either from AID's Regional Legal Adviser or by Washington lawyers.

The fifth issue involves AID's ability to continue to monitor the financial viability of IFIs with whom it has outstanding loans. 22. (A) (2) of the loan agreement provides that AID will consider it an "event of default" if the borrower fails to maintain its business as a financially secure going concern without selling substantial assets, entering bankruptcy or reorganization, or failing to pay its debts. However, there is no provision for the borrower to furnish AID with annual audited financial statements, which would enable AID or its agent to monitor the borrowers' financial viability and recognize financial difficulties before the IFI takes the extreme measures described in the loan agreement.

B. Should Section 108 Lending Have a Limit on IFI Spreads?

As the Section 108 program is now operating, the IFIs who have been successful in the auction put their Section 108 money into the general pool of funds available for lending. The Section 108 subloans carry the same variable interest rates as other loans from the same bank. This has resulted in spreads of 9-11 percent at current rates. The question arises in this context whether AID should impose a limit on bank spreads, as the NDB and ACB do.

Allowing the banks to operate with the greatest possible flexibility and minimal paperwork is one of the more attractive features of the program to IFIs. NDB's and ACB's onerous paperwork requirements, limits on bank spreads, and long lead time discouraged banks and their customers from utilizing NDB and ACB funds when the interest differential between commercial lending and development bank lending was less. From this point of view, it would be a mistake to add more conditions, such as spread limits, to Section 108 loans. However, on the other side, the rents from the difference between the Section 108 interest rate and the current prevailing interest rate are going to the banks in the form of higher spreads, not to the productive sectors.

The real issue, of course, is, what is the Section 108 lending program supposed to achieve? Is it a developmental program to encourage investment in productive enterprises? In this case, modifications to the auction system, such as penalties for early repayment of loans or limits on bank spreads to assure that rents go to the final borrower, would be in order. Or is it a program intended to increase the amount of funds in the commercial financial institutions available to the private sector. The answer is not readily apparent, even from a close reading of the legislation and the guidelines. However, the DCC interest rate policy of July 1988, with its emphasis on commercial and market interest rates, would appear to support the latter interpretation. This interpretation is also reinforced by the following guideline: "Where it is believed that high rates of inflation and associated interest rates will constrain demand for Section 108 loans, a Section 108 program should be delayed until appropriate fiscal and monetary policies have restored economic stability. Section 108 programs cannot substitute for appropriate macroeconomic policies." I suggest that AID/Jamaica try to come to a consensus on the program goals, because this will determine what modifications to the auction system, if any, are needed.

If AID decides the program should be more developmental--i.e. finance productive investment at interest rates below the prevailing commercial bank lending rates--one way would be to hold a separate auction in which only private development banks would be eligible to bid for funds. These banks have separate, more concessional sources of funds, generally bilateral and multilateral aid, and are thus able to lend at lower rates. They also have government exemptions from credit ceilings and reserve ratios.

C. Implementation Delays

One of the banks which was successful in the first auction was concerned about the four month delay from the date of the auction to disbursement of the funds, during which time credit ceilings were imposed and interest rates rose precipitately. The major problem appears to have been start-up problems, since this was the first loan made under the auction. Disbursement for the second auction appears to be proceding more quickly. However, AID should seek a more effective system to obtain Treasury approval for disbursement of funds, which seems to take longer than necessary. If the funds were kept in a separate account from the US Embassy/AID account, the system would also function more smoothly. This account is dependent on funds from Mexico City's RAMC, and in addition Section 108 funds are mixed with operating funds in the account.

D. Other Recommendations

As I explained in Part I of this report, the Jamaican Government told AID that it would give favorable consideration to a Ministry of Finance exemption from income tax on the Section 108 interest. However, the Minister of Finance has to date not signed the necessary order of exemption. To clean up the records on the Section 108 auction program, AID should try to obtain this exemption. The situation with the reserve requirements exemption is slightly different. The Bank of Jamaica advised AID that it had agreed in principle that loans made to financial institutions under the Section 108 program would be exempt from reserve requirements. Tthe BOJ said it would communicate the necessary instructions to the IFIs. The IFIs have not yet received this instruction, but it would appear to be their responsibility to follow up in this instance, not AID's.

5. Conclusions

In general, I find that the system for auctioning PL-480 Section 108 funds was carefully constructed and has worked extremely well. The recommendations for modifications are all relatively minor in the context of the auction as a whole. The subloans from the first auction comply with the criteria set out in the legislation. All are in productive areas that will benefit Jamaica's growth and development, either by increasing exports and tourism earnings, or by improving the efficiency and productivity of import substituting industries. Most of the bankers' criticism of the auction is focused on the high interest rates it yields. However, this is really a result of Jamaica's current financial climate rather than the auction system itself. In fact, by reflecting current market conditions the program conforms with the DCC's interest rate guidance.

Drafted: DBlack, 3/15/1990

Document #0265B

ATTACHMENT 1

SECTION 108

Information Manual

USAID MISSION TO JAMAICA

PL480, TITLE 1, SECTION 108 PROGRAM FUNDS

INFORMATION MANUAL

UNITED STATES OF AMERICA

USAID MISSION TO JAMAICA

PL480, TITLE I, SECTION 108 PROGRAM FUNDS

INFORMATION MANUAL

C O N T E N T S

March, 1989

USAID MISSION TO JAMAICA

PL 480, TITLE 1, SECTION 108 PROGRAM FUNDS

INFORMATION MANUAL

1. BACKGROUND

In 1985 the United States Congress amended the Food Security Act (of the United States) to provide local currency funds for lending to private sector borrowers. This enables a country which purchases commodities under the PL 480, Title 1 Program to purchase a portion of these commodities with local currency, rather than with US dollars. The local currency payments are to be used for private sector lending in the developing country, the purpose being to stimulate private enterprise development.

These local currency funds are to be loaned to intermediary financial institutions (IFIs), which will relend these funds to eligible privately owned enterprises for certain private enterprise projects or activities.

Funds loaned by these IFIs are not to be used to finance public sector enterprises, nor are the funds to be directed to enterprises that produce agricultural products in competition with US products.

Access to these funds will be by way of auction.

2. FUNDAMENTAL PRINCIPLES OF THE AUCTION

(a) The auction for funds will follow the 'Dutch Auction' principle, i.e., each bidder receives an amount at the rate applied for.

(b) The highest bidder gets first dip into the pool. The next runner-up in bid price (interest rate) gets the next dip into whatever remains of the pool until it is dry. This principle seeks to persuade IFIs to bid at high rates if they require funds. By this device the system seeks to ensure that bids approximate market interest rates.

(c) To prequalify, an IFI should satisfy the requirements of the following paragraph 7.

(d) A limit will be imposed on the amount of AID funds which should be outstanding from the IFI at any one time. We propose maximum exposure of two and a half times the paid-up share capital and reserves of the IFI.

March, 1989

3. AUCTION MECHANISM

3.1.0 Mechanism

The auction mechanism is demonstrated in three cases below. Each indicates how rates are determined and how the pool from the auction is allocated. For purposes of this exercise, we assume that the pool to be auctioned is US$4M. The interest rates employed in the examples are entirely hypothetical.

3.1.1 Case 1

IFI Bidder	Bid Interest Rate (%)	Applied for($M)	Allocated ($M)
A	15	3.0	2.4
B	15	2.0	1.6
		5.0	4.0

Since the bid interest rate for A and B is the same, the amount of funds available is pro-rated between the bidders. Each bidder receives 80% of the amount applied for.

3.1.2 Case 2

IFI Bidder	Bid Interest Rate (%)	Applied for($M)	Allocated ($M)
A	16	3.0	3.0
B	15	2.0	1.0
		5.0	4.0

In this case, each bidder applies for differing amounts at different interest rates. Here the higher bidder gets first dip into the pool and is allocated the amount applied for - i.e., A gets the $3M applied for. Bidder B, who applied at a lower interest rate, is allocated the remainder of the pool - i.e., $1M out of $2M applied for. Because it is a "Dutch auction", each bidder receives an amount at the rate applied for. Thus A will borrow at the higher interest rate and receive what was applied for. B will borrow at the lower interest rate but will receive only 50% of the amount applied for.

3. AUCTION MECHANISM (Cont'd)

3.1.3 Case 3

IFI Bidder	Bid Interest Rate (%)	Applied for($M)	Allocated ($M)
A	17	3.5	3.5
B	16	1.0	0.5
C	15	0.5	0
		5.0	4.0

This case is similar to Case 2, in that it demonstrates the principle that the highest bidder gets first dip. The next runner-up in bid price gets the next dip in what remains of the pool - i.e., $0.5M. This case demonstrates that after B has received $0.5M, there is nothing left in the pool for C.

4. ELIGIBLE SUB BORROWERS

Loan agreements will require IFIs to make sub loans only to private individuals, co-operatives, corporations, or other entities within Jamaica.

A subborrower must not be owned or controlled, in whole or in part by Government or any Governmental subdivision of Jamaica.

Attention is directed to Clause 8 (A) of the Standard Loan Agreement (Appendix 3) which restricts ownership of the subborrowing entity or venture to specified citizens.

5. ELIGIBLE PURPOSES

The Standard Loan Agreement (Appendix 3) will require IFIs to make sub loans within Jamaica in order to foster and encourage the development of private enterprise. Paragraph 10.2 provides an explanation of eligible purposes.

6. EXPORT LIMITATIONS

Production, processing or marketing of sugar, vegetable oil or citrus may not be financed under the program for purposes of export.

If in the view of an IFI, a subloan application for other purposes represents a potential conflict with US exports, the IFI should discuss the matter with USAID prior to making the subloan.

7. PREQUALIFICATION OF IFIs

Invitations to participate in auctions of available funds will be sent only to prequalified IFIs.

An IFI qualifies if -

(a) its name is included in a certified list of approved financial institutions, and

(b) its financial condition is satisfactory to USAID.

It is expected that, on request, the Bank of Jamaica will provide the certified lists. IFIs desirous of prequalifying must furnish their latest audited as well as most recent unaudited financial statements at the start of the program. Thereafter their audited financial statements annually should suffice. The audited statements must be received within 6 months after the end of an IFI's financial year.

8. AUCTION ADMINISTRATION

8.1 Pre-bidders Conference

It is advisable to brief IFIs in order to facilitate co-operation. The Chief Executives of pre-qualified IFIs will be invited to a meeting to be hosted by USAID to explain the program. The agenda will include the following:

- Purpose of program
- Purpose for which loans may be made by IFIs to sub-borrowers
- Limit of AID's exposure to any one IFI
- Approximate amounts to be loaned to IFIs
- The mechanism of the auction system
- Prequalification procedure.
- Cash and liquid asset reserves.
- Record keeping
- Quarterly reporting of subloans
- Annual audit

Thereafter, a pre-bidders' conference will be held before any auction if it becomes necessary and desirable to do so.

8.2 Amounts to be Auctioned

These will be determined by USAID and will depend on the amount of local currency generated from the PL 480 program.

8.3 Frequency of Auctions

This will depend on -

.. availability of funds (See 8.2 above)

.. demand for funds

Irrespective of the frequency, IFIs will receive reasonable notice of the timing of auctions so that their clients, the ultimate sub-borrowers, can be briefed and submit applications.

8.4 Invitations to IFIs

The usual text of these invitations is exhibited in Appendix 1.

8.5 Submission of Bids by IFIs

The prescribed format is illustrated in Appendix 2. Completed bid applications should be delivered within prescribed time to the office of Touche, Ross, Ogle & Company at 7 West Avenue, Kingston Gardens, Kingston 4. Bidders sending in bids by mail may address envelopes to P.O. Box 13, Kingston 4.

Envelopes must be sealed. The contents of each envelope should be identified on the outside of the envelope. The identifier should read "Auction of PL -- 480 Funds -- Offer No. .....".

8.6 Receipt of Bids

Touche, Ross, Ogle & Company (TRO) will acknowledge each bid by issuing a receival note. The receival note will be given to the bearer of each bid envelope delivered by hand or mailed to the sender of each bid envelope sent through the mail. All bids received within the specified period will be retained by TRO in safe custody until time for opening them.

Bids arriving after the deadline will be returned unopened to the sender.

8.7 Opening of Bids

Bids will be publicly opened as soon as possible after the deadline for submitting bids has passed. As each bid is opened, its particulars will be recorded in a Bid Register.

8.8 Disbursement of Bids

Once a bid has been accepted, the following steps will take place:-

- Touche Ross will advise all bidders of the bid results.

- USAID and IFIs will execute a loan agreement for the bid amount.

- IFIs will meet conditions precedent per loan agreement and submit a request to USAID for the funds needed for the estimated outlay of subloans based on a three-month need.

8.8 Disbursement of Bids (Cont'd)

- USAID will approve, and then requisition a cheque to be issued in favour of the IFI in the amount requested.
  Normally the cheque will be issued in about three weeks.

- Once the IFI commits the initial advance, the IFI will request additional amounts as required until the bid amount is exhausted.

- Except as USAID may otherwise agree in writing, the IFI will return to USAID any funds which the IFI will have failed to onlend at the end of twenty-one months, from the date of signing of the loan agreement.

9.0 STATUTORY CASH AND LIQUID ASSETS RESERVES

The Bank of Jamaica has been asked to advise how the IFIs' liability to USAID for Program funds will be treated for purposes of determining levels of cash and liquid assets reserves.

10.0 STANDARD LOAN AGREEMENT

10.1 Exhibit

A sample is exhibited at Appendix 3.

The following explanations are intended to facilitate an understanding of certain clauses in the sample.

10.2 Purpose of Sub-loans

Clause 2 of the sample states the purpose of sub-loans as being "the development of private enterprise institutions and infrastructure as the base for the expansion, promotion, and improvement of the production of food and other related goods and services within Jamaica."

Clause 6 requires the borrower (that is the financial institution) to make sub-loans "in accordance with the purposes of Section 2."

Clause 7 requires the borrower to give preference, to the maximum extent feasible, to the financing of agricultural related enterprise.

The relationship between these three clauses must be understood in the following context. Clause 2 directs the loans to private enterprise in general, and includes a statement that an indirect impact of private sector growth in general will be an increase in demand for agricultural goods and services. The purpose of this clause is to provide a linkage between private enterprise development and the authorizing PL-480 agricultural legislation. Clause 2 can be viewed as making a statement of general economic philosophy, and is not intended to restrict sub-loans solely to agricultural enterprises.

However, in Clause 6 there is a description of restrictions on subloans. Intermediary Financial Institutions (IFIs) must make subloans strictly to private individuals or organizations. Clause 6 (A) provides clear and unambiguous authority to make loans to productive private enterprise without restricting loans to agriculture.

Clause 7, however, establishes a preference for agricultural related private enterprises. This means that when an IFI has a choice between two equally well qualified loan applicants and one is in agriculture and one is not, the IFI must give preference to the agricultural loan.

10.0 STANDARD LOAN AGREEMENT (Cont'd)

10.2 It is emphasized that sub-loans must be for productive purposes in the private sector. Therefore sub-loans to individuals for the purchase of luxury items or consumption goods are not authorized. Clause 9 also excludes production for export of certain items -- which the foregoing paragraph 6 defined.

For purposes of the Program, sub-loans by way of leases are not allowed.

10.3 Repayment of Principal

Clause 4 should be read as meaning that the maximum moratorium on the repayment of principal will be two years. However, an IFI may enter into an agreement for a shorter or no moratorium.

10.4 Record Keeping

Clause 11 (B) contemplates records that reflect normal banking practice in general, but with specific modification to ensure that the special provisions of the agreement can be verified. These provisions include, for example, adequate information to show that the sub-loan is to a private enterprise and will not result in exports of agricultural products in competition with US exports. The record keeping system should be designed with the audit requirement (Clause 11 (D)) in mind, so that documentation can readily verify compliance with the terms of the agreement. Discretely coded sub-loan accounts supporting a discrete control account for PL 480, Section 108 sub-loans are recommended. IFIs should commit to writing their procedures for ensuring compliance with the terms of the Agreement.

10.5 Annual Audit

Clause 11 (D) contemplates an independent audit of the IFI's implementation of the Agreement. The audit will verify that the terms of the Agreement are met and that records and controls are adequate for the purpose. The audit should include test checking on the sub-borrower's use of funds provided under the Program.

10.0 STANDARD LOAN AGREEMENT (Cont'd)

10.5 Annual Audit (Cont'd)

Audit tests of funds use are of primary importance in the context of Clauses 8 and 9 of the Agreement.

The independent auditor is also expected to report on the subloans listing as at the quarter date corresponding with the IFI's financial year-end. For this purpose it is expected that most (but not all) of the audit tests would be encompassed within the audit programme required for reporting to the IFI's members. However the auditor may wish to consider whether it would be necessary to (plan for and) obtain any additional independent confirmation of subloan balances.

It is expected that audit tests of funds use and of subloan balances will be designed to provide 95% overall assurance.

A sample of an unqualified audit report which would satisfy the Agreement is exhibited at Appendix 4.

Qualifications and disclaimers, if any, should be unequivocally expressed and reasons clearly stated in audit reports.

10.6 Withholding Tax

Clause 12(B) requires IFIs to absorb the tax which Section 31(A) of the Income Tax Act requires to be withheld from the interest payable by IFIs. Under that Section the Commissioner of Income Tax may authorize deduction of tax at the rate applicable to AID. Under Article IV of a 1963 US/Jamaica bilateral agreement for economic, technical and related assistance, the Jamaican Government agreed to take measures to ensure the US Government's exemption from Jamaican taxes on the ownership or use of money. Therefore the Commissioner of Income Tax for Jamaica will be asked to authorize the payment of interest to AID by IFIs without deduction of withholding tax.

10.0 STANDARD LOAN AGREEMENT (Cont'd)

10.7.0 Activity reports

10.7.1 Samples of reports, required by Clauses 11A and 16B, are exhibited as Appendices 5 and 6.

10.7.2 Part 2 of Appendix 5 recognizes that repayment periods for some subloans may be shorter than the repayment period for the main loan. In such circumstances the IFI may revolve the principal and advance new subloans (under the Agreement) out of the regenerated funds.

10.7.3 In Clause 16B(3) the expression "... cumulative relending so far" means "cumulative outlay of 1st generation subloans". Part 1 of Appendix 5 employs the latter expression.

10.7.4 Part 3(b) of Appendix 5 is intended to combine subloans out of the original funds and the regenerated funds.

10.7.5 The expression "non-accrual" in Appendix 6 has the same meaning as "non-current". An IFI may list subloans in any convenient format, so long as it provides all the information required by Appendix 6. The Subloans Listing may express in (alpha or numeric) code the purpose of each loan, so long as a key to the code is provided.

10.8 Governing Law

The Agreement is to be governed by the laws of Jamaica.

11.0 "PRESCRIBED LIABILITIES" AND "DEPOSIT LIABILITIES"

APPENDIX 1

PL 480, TITLE 1, SECTION 108 PROGRAM FUNDS

INVITATION LETTER TO IFI

Dear x

Re: Auction of PL-480, Title 1, Section 108 Loan Funds - Offer No. ____

As you are aware, USAID has available local currency derived from the sale of commodities by the U.S.A. to Jamaica under the PL-480 program. These local currency funds are to be loaned to commercial and merchant banks which will relend these funds to eligible privately owned enterprises. Access to these funds will be by way of auction. If the aggregate of valid bids exceeds the amount being made available by USAID for the auction, successful bids will be determined by the 'Dutch Auction' method.

USAID is inviting your organization to submit a bid for the granting of loans by USAID out of a total of J$____M available for auction.

Bids must be communicated in the prescribed format.

A 'Bid Application Form' is attached to this letter. We invite you to refer to the PL-480 Information Manual when you are preparing your bid. After you complete it, you should enclose it in a sealed envelope on which should be written: "Auction of PL-480 Funds-Offer No....". The envelope should be addressed and hand-delivered to:

Touche, Ross, Ogle & Company

7 West Avenue

Kingston 4

Bids must be received no later than __p.m. on __________ 19__ in the office of Touche, Ross, Ogle & Company. Late bids will be returned to bidders. All bids will be publicly opened in the USAID building, 6b Oxford Road, Kingston 5 at ....p.m. ....1989.

A pre-bidders' conference will be held on ...., 1989 at ...., Kingston at ....p.m./a.m. The agenda will include:

1. Purpose of the program
2. Purposes for which loans may be made by financial institutions (IFIs) to sub-borrowers
3 The mechanism of the Auction System

USAID MISSION TO JAMAICA

PL 480, TITLE I, SECTION 108 PROGRAM FUNDS

4. Appropriate amounts to be loaned to IFIs.
5. Limit of AID's exposure to any one IFI.
6. The Loan Agreement.
7. Open discussion.

AID reserves the right based on evidence of fraud or collusion or when a rejection is clearly in the US Government's interests, to reject any or all bids.

AID will not be responsible for any costs incurred by the bidders in preparation of the bid documents or any other direct or indirect costs. Other terms and conditions apply as spelled out in the loan agreement.

There is a limit on the amount of program funds which should be outstanding from your institution at any one time. The limit is two and one-half times your Institution's equity. For this purpose, "special debentures" (as defined in Section 31 of the Banking Act are excluded from equity.

Attachments

1. Bid Application Form

March, 1989

APPENDIX 2

USAID MISSION TO JAMAICA

PL 480, TITLE 1, SECTION 108 PROGRAM FUNDS

BID APPLICATION FORM

AUCTION OF PL-480 LOAN FUNDS - OFFER NO. ____

To be held on ______________________

USAID Mission to Jamaica
6b Oxford Road
Kingston 5

Dear Sirs:

In response to your invitation dated .... 19.., we hereby submit the following:

Amount of Bid: J$

Bid Interest Rate: %

Principal and interest owed to USAID prior to this application

Total ___________

==========

Share capital and reserves (excluding "special debentures")

==========

We agree that successful bids will be determined by the 'Dutch Auction' method.

We are aware that USAID does not bind itself to accept the highest or any bid.

....
Name of IFI

....
Title of person signing

March, 1989

APPENDIX 3

Loan No.

Loan Agreement
Between
The Government of the United States of America
and
A COMMERCIAL OR MERCHANT BANK.
for
Private Enterprise Support

1. This loan Agreement is entered into pursuant to Section 108 of the Agricultural Trade Development and Assistance Act of 1954, as amended (P.L. 480), between the A COMMERCIAL OR MERCHANT BANK. ("Borrower") and the Government of the United States of America ("U.S.G.") acting through the United States Agency for International Development ("A.I.D."), hereinafter referred to as "Lender".

2. The Lender will lend Borrower an amount not to exceed Jamaican $ (AMOUNT AWARDED IN AUCTION) million to use to make loans (hereinafter referred to as "Subloans") within Jamaica in order to foster and encourage the development of private enterprise institutions and infrastructure as the base for the expansion, promotion and improvement of the production of food and other related goods and services within Jamaica. The aggregate amount of local currency disbursed by the Lender is referred to as "Principal".

3. Interest shall accrue on the outstanding balance of Principal and on any due and unpaid interest at the rate of (INTEREST RATE AS BID IN AUCTION) percent ( ) per annum, beginning on the first day after the date of disbursement of Principal by the Lender, and shall be due and payable no later than six (6) months after the first disbursement of Principal on a date to be specified by the Lender and semi-annually thereafter.

4. Borrower will repay the Principal to the Lender within ten (10) years from the date of first disbursement of Principal in sixteen (16) approximately equal semi-annual installments, the first being payable two (2) years after the date on which the first interest payment is due under Section 3 above. The Lender will provide the Borrower with an amortization schedule after final disbursement under the loan is made.

5. Disbursement will be deemed to occur on the date on which a check or other instrument is issued by the U.S.G. for the account of Borrower.

6. Borrower agrees to use the Principal to make Subloans in accordance with the purposes of Section 2. above to private individuals, cooperatives, corporations, or other entities within Jamaica, at reasonable rates of interest, to finance:

(A) Productive, private enterprise investment within Jamaica, including such investment in projects carried out by cooperatives, non-profit voluntary organizations, or by other entities within Jamaica which have been approved by the Lender; or

(B) Private enterprise facilities for aiding the utilization and distribution, and increasing the consumption of and markets for, United States agricultural commodities and the products thereof; or

(C) Private enterprise support of self-help measures and projects identified in agreements for sales of agricultural commodities between the U.S.G. and the Government of Jamaica under Title I of P.L. 480.

7. Borrower shall, to the maximum extent feasible, give preference under this Agreement to the financing of agricultural related private enterprise.

8. To be eligible to receive a Subloan from Borrower under this Agreement, an entity or venture must both:

(A) Be owned, directly or indirectly, by citizens of Jamaica or of any other country eligible to participate in a sales agreement under Title I of P.L. 480, except that up to 49 percent of such ownership interest may be held by citizens of the United States; and

(B) Not be owned or controlled, in whole or in part, by the government or any governmental subdivision of Jamaica.

9. No financing made available under this Agreement may be used to promote the production for export of agricultural commodities or the products thereof that will compete, as determined by the U.S.G., in world markets with similar agricultural commodities or the products thereof produced in the United States. The Lender shall communicate with Borrower in a timely fashion to implement this section.

10. Borrower shall take such steps as may be necessary to publicize in Jamaica the availability of funds under this loan.

11. This Agreement shall be subject to periodic audit by authorized representatives of the Lender to determine whether its terms and conditions are being fulfilled.

Borrower will:

(A) Furnish the Lender such information and reports relating to activities under this Agreement and under Subloans as the Lender may reasonably request.

Quarterly statements showing amount received from this loan, listing individual Subloans approved and status of each Subloan are required (this regular reporting requirement may be combined with the report necessary to draw down funds [para 16 (B)] below provided it is submitted quarterly);

(B) Maintain or cause to be maintained, in accordance with generally accepted accounting principles and practices consistently applied, books and records relating to activities under this Agreement and to Subloans, adequate to show, without limitation, the receipt and use of funds under this loan;

(C) Afford authorized representatives of the Lender the opportunity at all reasonable times to audit and inspect the utilization of the loan and Subloans, and books, records, and other documents relating thereto, which will be maintained for three years after the date of last disbursement hereunder, and with respect to Subloans for three years from the date of disbursement by Lender of funds hereunder for each Subloan; and

(D) Instruct its own independent auditors to audit annually each Subloan, and forward the results of the audit to the Lender.

12. (A) Payments of Principal and interest will be made in the currency of Jamaica and will be applied first to the payment of interest due and then to the repayment of Principal. Except as the Lender may otherwise agree in writing, payments will be deposited with the Controller, A.I.D., 6B Oxford Road, Kingston 5, and will be deemed made when received in said office.

(B) Payments of Principal, interest, and any refunds will be paid by Borrower in full, free of any deductions for any taxes, charges or withholdings of whatever nature. If Borrower is prohibited by law from making such payments free of such deductions or withholdings, then Borrower will pay whatever additional amount is necessary to make the actual amount received by Lender equal to the gross amount that Lender would have received without reduction for such deductions or withholdings.

Borrower will pay, directly to the taxing authority, any taxes, duties, fees or charges imposed on this Agreement or any aspect of the transactions between Borrower and Lender contemplated by this Agreement.

(C) The duty of Borrower under Section 12 (B) will survive the repayment in full of Principal and interest.

13. Upon payment of all interest and any refunds then due, the Borrower may prepay, without penalty, all or any part of the Principal. Unless the Lender otherwise agrees in writing, any partial prepayments will be applied to the installments of Principal in the inverse order of their maturity.

14. Upon payment in full of the Principal and any accrued interest, this Agreement, and all obligations of the Borrower and the Lender under it, will cease, except as indicated in Section 12 (C).

15. (A) As a condition precedent to the disbursement of funds by the Lender, the Borrower:

(1) Will furnish a legal opinion satisfactory to the Lender from counsel satisfactory to the Lender demonstrating that under the laws of Jamaica:

(a) Borrower is a financial intermediary located or operating in Jamaica, that is either: a bank, financial institution, cooperative, nonprofit voluntary agency, or other organization which has been determined by the Lender to have the capability to make and service a loan;

(b) Borrower has the legal capacity to borrow from and repay to the Lender, and to make and service Subloans, in accordance with this Agreement;

(c) This Agreement has been duly authorized and/or ratified by, and executed on behalf of, Borrower, and that it constitutes a valid and legally binding obligation of Borrower in accordance with all of its terms;

(d) This Agreement may be enforced by legal proceedings against the Borrower upon failure of the Borrower to meet its obligations under this Agreement;

(2) Will furnish a written statement, acceptable to the Lender, indicating:

(a) The steps that the Borrower will take to carry out the provisions of Section 10 of this Agreement, regarding publicity, and

(b) indicating how Borrower will establish reasonable rates of interest applicable to Subloans.

(B) If Borrower has not within two months from date of signature of the Agreement, or such later date as Lender may agree to in writing, met the conditions specified in this Section, Lender may terminate this Agreement by written notice to Borrower.

16. (A) Borrower, having satisfied the conditions precedent of Section 15 above, and having furnished to the Lender the names of its authorized representatives and their specimen signatures in accordance with Section 17 below may, depending on availability of funds (and performance of previous subloans for subsequent disbursements), obtain from the Lender the funds needed for its estimated outlay of Subloans during the next one to six months upon request of an authorized representative. The Lender will arrange transfer of the funds from the U.S.G. depository bank in Jamaica.

(B) When Borrower requires additional funds hereunder, it will identify to Lender:

(1) Funds received to date;

(2) How funds received were used:

(a) To whom lent:
(b) For what purposes:
(c) On what terms:
(d) Current status of Subloan:

(3) Cumulative relending so far; and will certify that its statements are true and correct and in conformity with this Agreement.

(C) Except as the Lender may otherwise agree in writing, no disbursement of funds by the Lender shall be made in response to a request received after eighteen (18) months from the date of signing of this Agreement.

17. Representatives, for all purposes relevant to this Agreement, will be the persons holding or acting in the office of:

- for the Borrower: Managing Director
  A COMMERCIAL OR MERCHANT BANK.

- for the Lender: Director
  A.I.D.

each of whom, by written notice, may designate additional representatives.

Names and specimen signatures of Borrower's representatives will be provided to the Lender, which may accept as duly authorized any instrument signed by such representatives implementing this Agreement, until receipt of written notice of revocation of their authority.

18. Communications between Borrower and the Lender under this Agreement, which will be in English unless both parties otherwise agree, will be in writing and will be deemed given when delivered as follows:

Borrower: A COMMERCIAL OR MERCHANT BANK.
STREET
CITY, Jamaica

Lender: A.I.D.
6b Oxford Road
Kingston 5, Jamaica

Other addresses may be substituted upon the giving of one month's notice.

19. Borrower will carry out this Agreement with due diligence and in conformity with sound financial and management practices.

20. Borrower warrants that the facts and circumstances of which it has informed the Lender in the course of reaching this Agreement are accurate and complete, and include any that might materially affect the performance of the Borrower's responsibilities under this Agreement. Borrower will inform the Lender in timely fashion of any facts or circumstances that might reasonably be believed to materially affect the performance of the Borrower's responsibilities under this Agreement.

21. Borrower upon notice may cancel any part of this loan which has not been disbursed.

22. (A) It will be an "Event of Default" if Borrower shall have failed:

   (1) To pay when due any interest or installment of Principal required under this Agreement, or

   (2) To maintain its business as a financially secure going concern without, inter alia, selling a substantial part of its assets, entering bankruptcy or reorganization proceedings or the like, failing to pay its debts in a current fashion, or otherwise impairing its ability to service its debts, or

   (3) To comply with any other provision of this Agreement.

(B) If an Event of Default shall have occurred, then the Lender may (1) decline to make further disbursements of Principal, and may (2) give the Borrower notice that all or any part of the unrepaid Principal will be due and payable sixty (60) days thereafter, with interest, and, unless such Event of Default is cured within that time, such unrepaid Principal and accrued interest hereunder will be due and payable immediately.

23. The Lender may require, within sixty (60) days of Borrower's receipt of a request therefore, a refund of any Principal disbursed hereunder which is not used in accordance with this Agreement. Such right to require a refund will continue, notwithstanding any other provision of this Agreement, for three (3) years from the date of the last disbursement under this Agreement. Any such refund will be available for re-use under this Agreement, if authorized by the Lender in writing, and otherwise will be applied to the installments of Principal in the inverse order of their maturity and the amount of this loan reduced by the amount of the refund as applied.

24. The Borrower shall make no transfer or assignment of this Agreement or any of its rights hereunder without the written approval of the Lender.

25. Any failure or delay of the Lender in exercising in whole or in part any of its rights under this Agreement shall not constitute a waiver of any such rights.

26. Not withstanding any cancellation, suspension of disbursement, or acceleration of any payments, the provisions of this Agreement will continue in effect until the payment in full of the Principal and accrued interest hereunder.

Done at Kingston, Jamaica, in four signed originals, this_______day of MONTH , 1988.

In witness whereof, the Borrower and the Government of the United States of America, each acting through its duly authorized representative, have caused this Agreement to be signed in their names and delivered as of the day and year first above written.

United States of America
By:

A COMMERCIAL OR MERCHANT BANK.
By:

(SAMPLE AGREEMENT - NOT FOR SIGNATURE)

William R. Joslin
A.I.D. Director

XXXX NAME XXXX
Managing Director

APPENDIX 4

USAID MISSION TO JAMAICA

PL 480, TITLE 1, SECTION 108 PROGRAM FUNDS

SAMPLE OF INDEPENDENT AUDITORS' REPORT

To USAID Mission to Jamaica

Re: PL 480, Title 1, Section 108 Loan Agreement No ______

We have examined the balance sheet of ______________________________ as at ....19..., and the related profit and loss account and statement of changes in financial position for the year then ended, and have issued our report thereon dated...........19.... We have also examined the accompanying Subloan Listing as at ....19....
Our examination 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 connection with our examination, nothing came to our attention that caused us to believe that the Borrower was not in compliance with Clauses 8 and 9 of the Loan Agreement No......dated....., with the Government of the United States of America. However it should be noted that the scope of our examination was such that it would not necessarily disclose all deviations, if any, which may exist with respect to the Loan Agreement.

In our opinion, proper accounting records have been kept by the Borrower and the Subloans Listing, which is in agreement therewith, gives a true and fair view of the subloans as at.............19....

March, 1989

APPENDIX 5

Appendix 5.1

USAID MISSION TO JAMAICA

PL 480, TITLE 1, SECTION 108 PROGRAM FUNDS

NAME OF IFI..

PL 480, TITLE 1, SECTION 108 LOAN AGREEMENT NO:.........Dated:.....19...

ACTIVITY REPORT Present Date:..........19...

	To Quarter ended .....19...	To present date
PART 1:ORIGINAL FUNDS		
Cumulative amount received from USAID		
Cumulative outlay of 1st generation subloans therefrom		
Undisbursed		

(After full disbursement, Part 2 replaces Part 1)

	This Quarter
PART 2:REGENERATED FUNDS	
Non-cumulative outlay of subloans out of regenerated funds	

PART 3:BALANCES AS AT QUARTER DATE

	Principal	Interest	Total
a) Owed to USAID			
b) Aggregate of subloans to customers (see separate listing)			
c) Excess of principal:			
a) over (b)		xx	xx
or			
b) over (a)		xx	xx

March, 1989

USAID MISSION TO JAMAICA

PL 480, TITLE 1, SECTION 108 PROGRAM FUNDS

INFORMATION MANUAL

PART 4:CERTIFICATE

To USAID,

We certify that as of the dates herein --

a) all subloan borrowers were eligible under Clause 8 of the Agreement.

b) No financing has been made available in contravention of Clause 9 of the Agreement.

c) in all respects the information provided in this Activity Report and in the annexed Subloans Listing is true and correct and in conformity with the Agreement.

Signature:......................................

Designation:.....................................

APPENDIX 6

NAME OF IFI...

PL480, TITLE 1, SECTION 108 LOAN AGREEMENT NO:.........................

SUBLOANS LISTING FOR QUARTER ENDED;.....................................19......

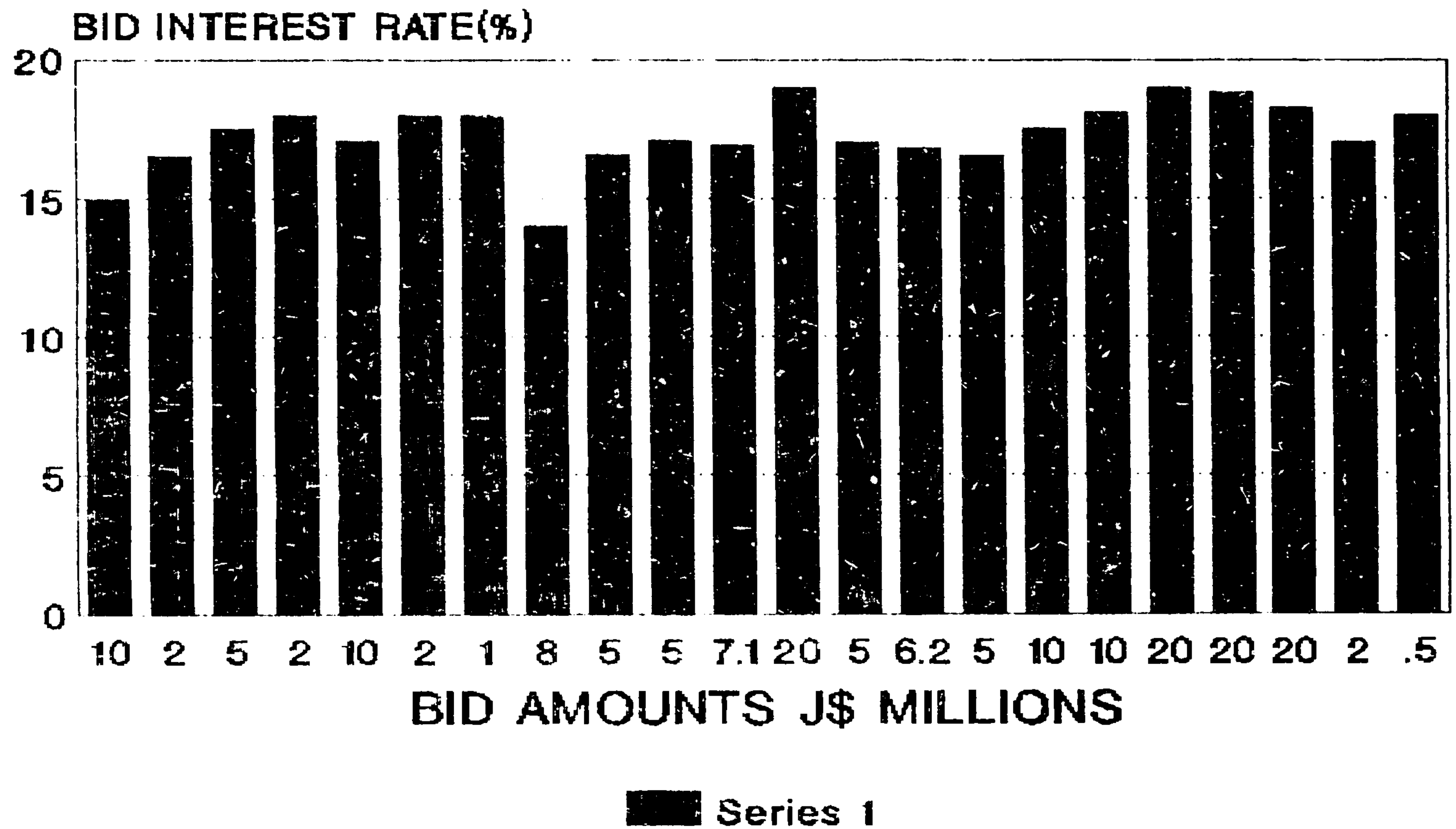
Borrowers	Total draw-down	(B A L A N C E S) Principal	Interest	Total	Interest Rate & (Repayment Terms)	($ Analysis by Status (Current	Past due	Non-accrual)	(Purpose of loan)

ATTACHMENT 2

Bid Amounts

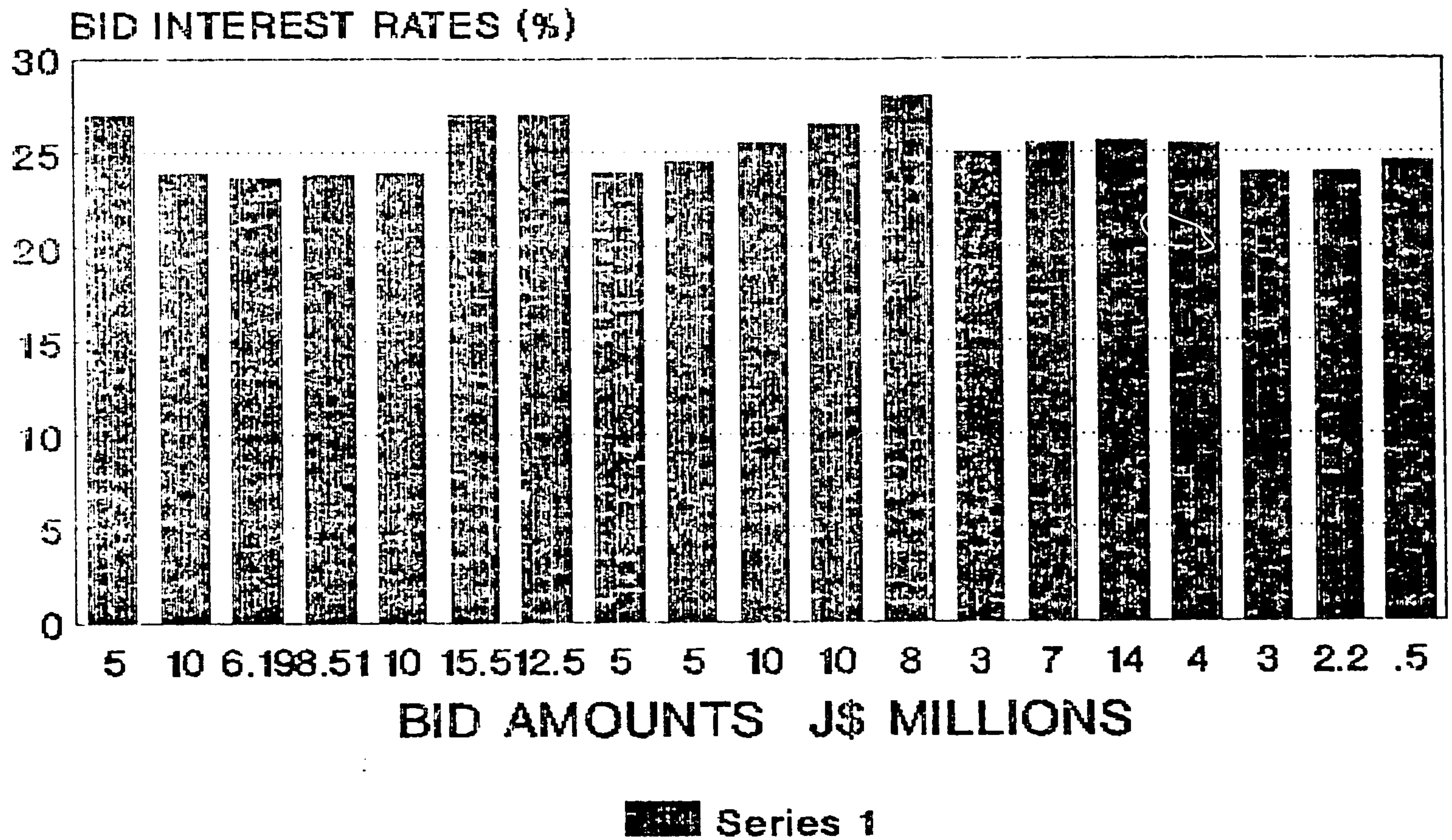
from First and Second Auction

RESULT OF FIRST AUCTION
AUGUST 17,1989



RESULT OF SECOND AUCTION

FEBRUARY 1,1990



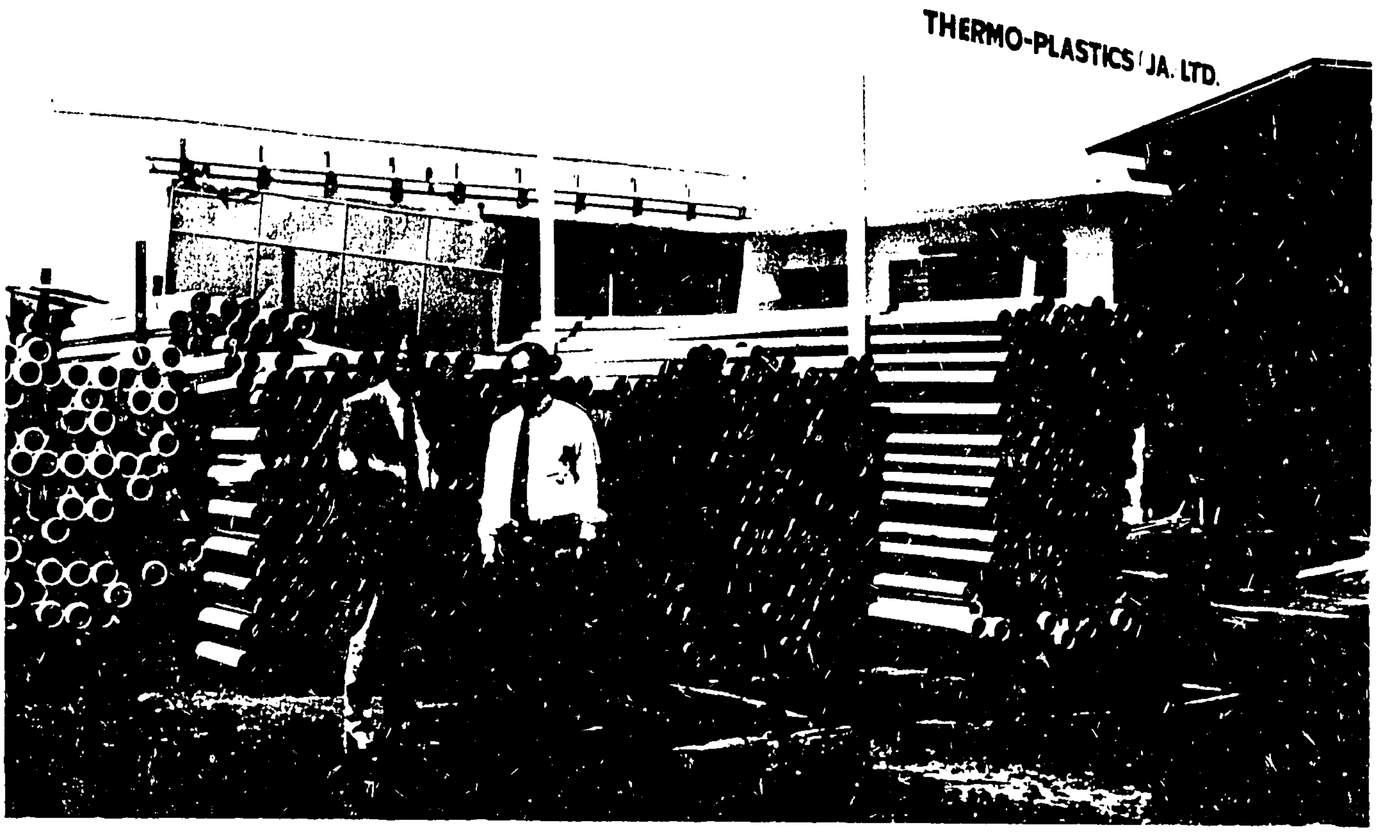
ATTACHMENT 3
Photos

SECTION 108

Final Borrower's

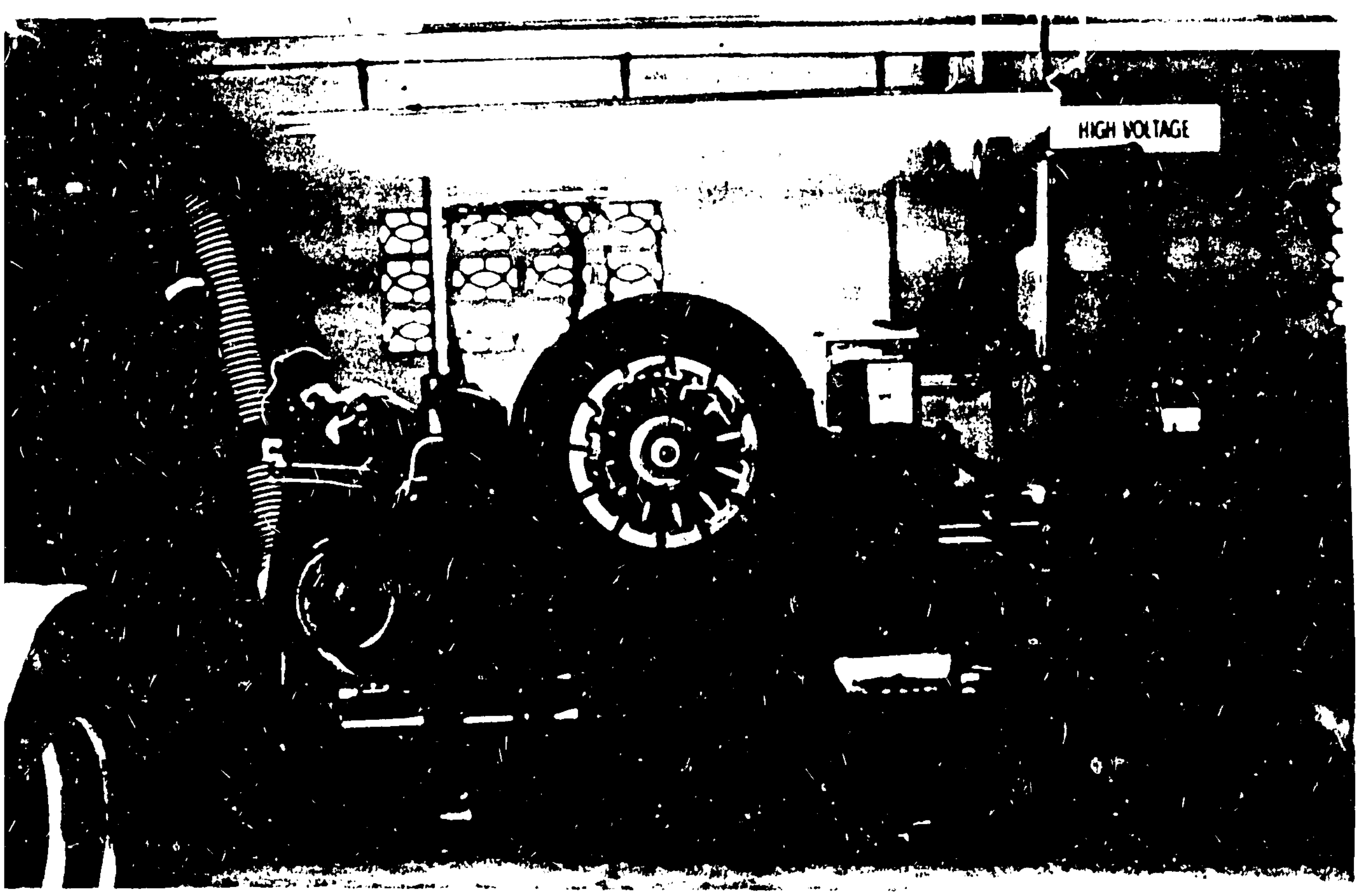
Projects/Activities

Thermo Plastics (Ja.) Ltd.



BEST AVAILABLE DOCUMENT

Hi Mileage Tire Re-treading



AH Buildings - Low Income Housing

Caribbean Chalk